

tracesafe

TRACESAFE INC.

(formerly Blockchain Holdings Ltd.)

Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in United States 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, 2020 and 2019, 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 referred to as 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, 2020 and 2019, 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

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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

May 16, 2021

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in US dollars)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Current assets			
Cash		\$ 556,990	\$ 719
Restricted term deposit	6	51,330	-
Trade and other receivables	7	2,017,770	1,196
Prepaid expense and deposit	8	820,062	23,067
Total current assets		3,446,152	24,982
Investment	9	3,102,704	882,000
Intangible asset	4, 10	966,333	-
Goodwill	4, 11	3,650,355	-
Total Assets		\$ 11,165,544	\$ 906,982
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables and accrued liabilities	12, 15	\$ 1,328,723	\$ 79,955
Deferred revenue		53,918	-
Due to related parties	15	1,990	65,406
Loans payable	13	1,467,785	204,449
Total liabilities		2,852,416	349,810
Shareholders' equity:			
Share capital	14	15,946,318	11,137,327
Obligation to issue shares	14	820,690	-
Reserves	14	1,752,881	1,431,455
Accumulated other comprehensive income (loss)		2,195,480	(34,797)
Deficit		(15,916,656)	(11,976,813)
Equity attributable to owners of the parent		4,798,713	557,172
Equity attributable to non-controlling interest	5	3,514,415	-
Total shareholders' equity		8,313,128	557,172
Total Liabilities and Shareholders' Equity		\$ 11,165,544	\$ 906,982

Nature and continuance of operations (note 1)

Commitment (note 20)

Subsequent events (note 7, 23)

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)

	Notes	Year Ended December 31,	
		2020	2019
Revenue:			
Product sale	18	\$ 3,434,897	\$ -
Service income	18	125,062	-
		3,559,959	-
Cost of revenue	18	(2,021,415)	-
		1,538,544	-
Operating expenses:			
Advertising		12,802	-
Amortization	10	148,667	-
Bad debt expense	7	20,428	-
Bank charges		9,800	2,015
Consulting		974,515	-
General and administration	15	388,802	74,162
Management fees	15	237,605	230,533
Personnel, payroll and consultants		1,026,881	-
Professional fees	15	608,852	347,861
Regulatory and transfer agent fees		46,584	24,412
Research and development	15	1,166,022	-
Stock-based compensation	14,15	1,633,567	9,190
		6,274,525	688,173
Loss before the under-noted items:		(4,735,981)	(688,173)
Other items:			
Change in fair value of contingent consideration liability	4, 5	(2,782,081)	-
Finance costs	15	(213,165)	(3,542)
Foreign exchange loss		(8,266)	-
Gain on settlement of debt		-	31,735
		(7,739,493)	(659,981)
Net loss for the year attributable to:			
Non-controlling interest	5	(3,899,748)	-
Owners of the parent		(3,839,745)	(659,981)
Net loss for the year		(7,739,493)	(659,981)
Other comprehensive income (loss):			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		9,573	(6,035)
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurement of investment in Airbeam	9	2,220,704	-
Total comprehensive loss for the year		(5,509,216)	(666,016)
Total comprehensive loss for the year attributable to:			
Non-controlling interest	5	(3,899,748)	-
Owners of the parent		(1,609,468)	(666,016)
Total comprehensive loss		\$ (5,509,216)	\$ (666,016)
Loss per share attributable to owners of the parent - basic and diluted			
		\$ (0.13)	\$ (0.03)
Weighted average number of shares outstanding			
- basic and diluted		30,074,853	21,459,006

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)

	Share Capital		Obligation to issue shares	Reserves	Accumulated Other Comprehensive Income (Loss)	Deficit	Equity attributable to owners of the parent	Equity attribute to non-controlling interest	Total
	Number of Shares	Amount							
Balance, December 31, 2018	19,784,875	\$ 10,222,879	\$ -	\$ 1,513,866	\$ (28,762)	\$ (11,408,432)	\$ 299,551	\$ -	\$ 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
Translation difference	-	-	-	-	(6,035)	-	(6,035)	-	(6,035)
Net loss for the year	-	-	-	-	-	(659,982)	(659,982)	-	(659,982)
Balance, December 31, 2019	22,238,031	\$ 11,137,327	\$ -	\$ 1,431,455	\$ (34,797)	\$ (11,976,813)	\$ 557,172	\$ -	\$ 557,172
Shares issued for private placement	1,097,213	246,464	-	-	-	-	246,464	-	246,464
Units issued for private placement	5,352,330	1,136,337	-	-	-	-	1,136,337	-	1,136,337
Units issued for private placement	4,085,100	3,053,824	-	-	-	-	3,053,824	-	3,053,824
Share issuance costs	-	(578,635)	-	110,178	-	-	(468,457)	-	(468,457)
Performance shares	1,700,000	547,126	820,690	-	-	-	1,367,816	-	1,367,816
Share issued to settle convertible debentures	899,847	190,390	-	-	-	-	190,390	-	190,390
Adjustment on the expiration of stock options	-	-	-	(16,629)	-	16,629	-	-	-
Options exercised	50,000	23,062	-	(15,255)	-	-	7,807	-	7,807
Warrant exercised	62,500	57,291	-	(33,198)	-	-	24,093	-	24,093
Stock-based compensation	-	-	-	265,751	-	-	265,751	-	265,751
Shares issued for services	237,013	109,257	-	-	-	-	109,257	-	109,257
Share issued for debt settlement	43,750	23,875	-	10,579	-	-	34,454	-	34,454
Reclassification of contingent consideration liability to obligation to issue shares	-	-	-	-	-	-	-	7,297,436	7,297,436
Effect of change in ownership of TraceSafe Tech	-	-	-	-	-	(116,727)	(116,727)	116,727	-
Remeasurement of investment in Airbeam	-	-	-	-	2,220,704	-	2,220,704	-	2,220,704
Translation difference	-	-	-	-	9,573	-	9,573	-	9,573
Net loss for the year	-	-	-	-	-	(3,839,745)	(3,839,745)	(3,899,748)	(7,739,493)
Balance, December 31, 2020	35,765,784	\$ 15,946,318	\$ 820,690	\$ 1,752,881	\$ 2,195,480	\$ (15,916,656)	\$ 4,798,713	\$ 3,514,415	\$ 8,313,128

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,	
	2020	2019
Cash provided by (used in):		
Operating Activities		
Net loss for the year	\$ (7,739,493)	\$ (659,981)
Adjustment to reconcile loss to net cash used in operating activities		
Amortization	148,667	-
Finance costs	213,165	3,543
Change in fair value of contingent consideration liability	2,782,081	-
Shares issue for services	109,257	-
Share based compensation	1,633,567	9,190
Unrealized foreign exchange gain	(12,663)	-
Changes in working capital		
Trade and other receivables	(2,016,574)	(1,196)
Deposits for production	(773,081)	-
Prepaid	(23,914)	(3,386)
Trade payables and accrued liabilities	1,119,597	(156,778)
Due to related party	(63,416)	27,695
Deferred revenue	53,918	-
Net cash used in operating activities	(4,568,889)	(780,913)
Investing Activities		
Cash paid for acquisition of TraceSafe technology	(250,000)	-
Purchase of restricted term deposits	(51,330)	-
Investment in Airbeam	-	(882,000)
Net cash used in investing activities	(301,330)	(882,000)
Financing Activities		
Proceeds from shares issued for cash	4,436,625	914,448
Payment for share issued costs	(408,579)	-
Proceeds from shares issued upon options exercise	7,807	-
Proceeds from shares issued upon warrants exercise	24,093	-
Proceeds from loan payable, net	1,362,447	240,989
Net cash provided by financing activities	5,422,393	1,155,437
Increase (Decrease) in cash	552,174	(507,476)
Effect of change in foreign exchange rates	4,097	-
Cash, beginning of year	719	508,195
Cash, end of year	\$ 556,990	\$ 719

Supplemental cash flow information (note 21)

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, 2020 AND 2019

(Expressed in US dollars, unless otherwise stated)

1. NATURE AND CONTINUANCE OF OPERATIONS

TraceSafe Inc. (formerly Blockchain Holdings Ltd.) (the “Company”) is listed on the Canadian Securities Exchange (“CSE”) under the symbol “TSF”. The registered office and head office of the Company is Sea Meadow House, Blackburne Highway, PO Box 116, 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.

These consolidated financial statements have been prepared on the assumption that the Company 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, 2020, 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 private placement of common shares, units or debentures. 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.

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 treat 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

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”). 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.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in US dollars, unless otherwise stated)

2. BASIS OF PREPARATION (continued)

Statement of Compliance (continued)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on May 16, 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	
		December 31, 2020	December 31, 2019
Jucca Holdings Limited	British Virgin Islands	100%	100%
Wishland Properties Limited	British Virgin Islands	100%	100%
TraceSafe Technologies Inc.	Nevada, United States	6.3%	-
TraceSafe Asia Pacific Pte Ltd.	Singapore	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 (note 5).

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.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in US dollars, unless otherwise stated)

2. BASIS OF PREPARATION (continued)

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.

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 consolidated financial statements include:

- The assessment of the Company's ability to continue as a going concern and its ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances. The factors considered by management are disclosed in note 1.
- When the Company completes an acquisition, management is required to make judgments to determine whether the acquisition meets the definition of a business under IFRS 3 – Business Combinations. The determination of whether a set of assets acquired and liabilities assumed in an acquisition constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business consists of inputs, including non-current assets and processes, including operational processes, and when applied to those inputs have the ability to create outputs and provide a return to the Company and its shareholders. Management is required to make judgments and estimates of the future performance of the acquired business and/or assets in order to determine the amount of contingent consideration to be recognized at acquisition and at each subsequent reporting date. The acquisition as described in note 4 constitutes a business combination and accordingly it was accounted for as business combination transaction.
- The Company evaluated cash-generating units ("CGU") at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's intangible assets and goodwill. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account various factors such as economic and market condition and future use of these assets.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in US dollars, unless otherwise stated)

2. BASIS OF PREPARATION (continued)

Significant Accounting Judgments and Assumptions (continued)

Significant Judgments (continued)

- The Company uses judgment in its assessment of whether the Company has significant influence in its investment and determination of its classification and measurement. Significant influence is the power to participate in the financial and operating policy decisions of the investee, including but not limited to, the ability to exercise significant influence through board representation, material transactions with the investee, provision of technical information, and the interchange of managerial personnel. Whether an investment is classified as an investment in associate can have a significant impact on the entries made on and after acquisition.
- Management is required to assess the functional currency of the Company. In concluding that the Canadian dollar is the functional currency of the parent company, Singapore dollar as functional currency of TraceSafe Asia Pacific Pte Ltd. and US dollar as functional currencies of the remaining entities, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the particular entity operates.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the current and next fiscal financial years:

- The Company makes estimates on the useful lives when determining the amortization of intangible assets are dependent on estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market condition and useful lives of assets.
- The Company uses the certain price models in determining the fair value of certain instruments, such as Monte Carlo simulation model to value shares issued or to be issued for the acquisition as described in note 4, or Black-Scholes option pricing model to value options and warrants granted during the year. These models were developed for use in estimating the fair value of instruments such as shares or traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates that are subjective and may not be representative of actual.
- The fair value of the investment in Airbeam is determined by the Company, in conjunction with independent valuation expert using recognized valuation technique. The determination of the fair value of the investment may incorporate valuation involving the use of transaction price inputs or estimates future cash flows (such as future revenue projection, etc), growth rate, discount rate, as applicable. The fair value of the investment as at December 31, 2020 was determined using the most recent transaction price of shares issued.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in US dollars, unless otherwise stated)

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.

Revenue Recognition

The Company enters into contracts to supply various goods, services or combinations of goods and services, which are capable of being distinct and accounted for as separate performance obligations. Revenue is recognized when performance obligations under the terms of a contract with customer are satisfied; generally, this occurs with the transfer of control of products or services. Control transfers to customers upon shipment or delivery of goods to the destination and upon delivery of services. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Revenue is reduced for variable consideration attributable to customer returns, customer rebates and similar allowances. Sales and other taxes are excluded from revenue.

Manufactured goods

Revenue from contracts to provide manufactured goods, including tracking devices and gateways, is recognized at the transfer of control, which occurs upon shipment or delivery, in accordance with the terms of the contract. When contracts contain multiple performance obligations, the Company allocates the transaction price to each performance obligation identified in the contract. Revenue is recognized when each performance obligation is achieved.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in US dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Rendering of services

Revenue from the rendering of services include system support or managed services. Revenue from contracts to provide services is recognized when or as the services are provided in accordance with the performance obligation of the contract. The method to measure progress towards complete satisfaction of performances over time is determined using the output method. When contracts include a combination of service, the Company allocates the transaction price to each service performance obligation and revenue is recognized as each distinct performance obligation is delivered.

Contract costs

The Company recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. For a contract greater than a year, costs the Company would not have incurred if the contract had not been obtained and which are expected to be recovered, are included other current assets as contract cost. The deferred contract costs reduced over the life of a contract in proportion to the completion of those performance obligations. As at December 31, 2020, the Company does not recognize any deferred contract costs.

Deferred revenue

Deferred revenue, also referred as contract liabilities, include cash consideration received upfront at the beginning of the contracts. Deferred revenue of a contract is reduced as performance obligations are achieved. The Company has determined there are no significant financing components in the contracts with customers.

Cash and Cash Equivalents

Cash and cash equivalents include components of cash that are readily available or convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. It includes deposits in bank and short-term deposits with an initial maturity of less than three months. The Company does not have any cash equivalents as at December 31, 2020.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in US dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model.

The following is the Company’s new accounting policy for financial instruments under IFRS 9:

(i) Classification

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 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.

(ii) Measurement

Equity investments at FVTOCI

These assets 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.

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.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

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.

(iii) Impairment of financial assets at amortized cost (continued)

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 general recognized in profit or loss.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

At inception of a new contract, the Company assesses whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- i. the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company.
- ii. the Company has the right to obtain substantially all the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- iii. the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use (“ROU”) asset and a lease liability on the consolidated statement of financial position. The ROU asset is initially recorded at cost, which comprises the initial amount of the lease liability and any initial direct costs incurred less any lease payments made at or before the initial adoption date. The ROU asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for remeasurements of the lease liability. The lease liability is measured at the present value of the expected lease payments over the lease term, discounted at the interest rate implicit in the lease; if the rate cannot be determined, the incremental borrowing rate is used. The liability is increased for the passage of time and payments on the lease are offset against the lease liability.

For the year ended December 31, 2020, the Company has applied the short-term lease exemption for its lease which was on a month-to-month term.

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.

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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, 2020, 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.

Business combinations

Business combinations are accounted for by applying the acquisition method. The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash) and any contingent consideration and any equity interests issued by the Company. Transaction costs, other than those associated with the issuance of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

The acquisition date is the date when the Company obtains control of the acquiree. Contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as a liability is re-measured at subsequent reporting dates in accordance with the criteria and guidance provided under IFRS with corresponding gain or loss recorded in the statements of loss and comprehensive loss.

Goodwill and intangible assets

Goodwill, representing the excess of the purchase price over the fair value of the net assets acquired, is carried at its original value based on the acquisition, less impairment losses determined subsequent to the acquisition. Goodwill is measured against the whole operations of the Company as a singular cash generating unit (CGU).

Intangible assets consistent of developed technology acquired through an acquisition. Intangible assets are accounted for at cost. Developed technology has a finite useful life and is carried at cost less accumulated amortization and accumulated impairment losses. Developed technology is amortized on a straight-line basis over the estimated useful life of 5 years.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Goodwill is reviewed for impairment annually, or when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Goodwill, both new and existing, is measured against the whole operations of the Company as a singular cash generating unit (CGU). If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs of disposal and value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses related to goodwill cannot be reversed.

Long-lived assets or finite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. When an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset is increased to the revised estimate but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years.

In the process of measuring expected future cash flows, management makes assumptions about future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets in subsequent financial years.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development

Expenditures related to research activities are recognized as an expense in the period in which they are incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, the entity can demonstrate all of the following:

- (a) technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) its intention to complete the intangible asset and use or sell it.
- (c) its ability to use or sell the intangible asset.
- (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs are capitalized as soon as the above criteria are met. Where no internally generated intangible asset can be recognized, development expenditures are expensed in the period in which they are incurred.

After initial recognition, internally generated intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. They are amortized on a straight-line basis over their useful life, and an impairment loss is recognized in profit or loss when their recoverable amount is less than their net carrying amount.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

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.

New accounting standards not yet adopted

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of a liability as either current or non-current. On July 15, 2020, the IASB issued an amendment deferring the effective date by one year. Currently the amendments are effective for annual periods beginning on or after January 1, 2023. Early application is permitted.

The amendments eliminated the requirement that the right to defer settlement or transfer of a liability for at least 12 months be unconditional to classify a liability as non-current. Instead, the right must be substantive and exist at the end of the reporting period.

The amendments also clarify how an entity classifies a liability that is convertible at the option of the counterparty. The amendments state that:

- The settlement of a liability includes the transfer of the entity's own equity instruments to the counterparty.
- When classifying a liability as current or non-current, an entity may only omit conversion options recognized as equity.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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4. BUSINESS COMBINATION

On April 22, 2020, the Company entered in to a Contribution Agreement (the “Agreement”) with WiSilica Inc. (“WiSilica”) to purchase TraceSafe, a self-quarantine monitoring technology suite. Pursuant to the Agreement, the Company subscribed for 1,160,714 voting common shares of TraceSafe Tech in exchange for \$650,000 in cash. TraceSafe Tech acquired 100% interest of certain identified assets from WiSilica, including TraceSafe technology and the associated inventory, in the consideration of \$250,000 payment in cash, a payable for the inventory transferred, 4,516,395 non-voting common shares and an aggregate of 1,483,605 preferred shares of TraceSafe Tech. The acquisition was completed on May 12, 2020.

As part of the acquisition, TraceSafe Tech and WiSilica also entered into a Support Agreement dated May 5, 2020, a Transition Services Agreement dated May 12, 2020, a WiSilica Platform License Agreement dated May 12, 2020, Inventory Purchase Agreement dated May 12, 2020, an Intellectual Property Assignment Agreement dated May 12, 2020 and a Bill of Sale Assignment and Assumption Agreement dated May 12, 2020.

The Company determined that the acquisition was a business combination as the acquired assets constitute a business as defined under IFRS 3 *Business Combinations*. The Company owns all the voting common shares of TraceSafe Tech and therefore was determined to be the acquirer. Accordingly, the transaction was accounted for by applying the acquisition method, whereby the assets acquired and liabilities assumed were recorded at their fair values with any excess of the aggregate consideration over the fair values of the identifiable net assets allocated to goodwill. Goodwill consists of an organized workforce and synergies relating to the Company’s existing technology business.

The purchase price allocation is as follows:

		Amount
Total consideration transferred	\$	5,864,369
Assets acquired		
Inventory	\$	1,099,014
TraceSafe technology		1,115,000
Total assets acquired		2,214,014
Goodwill	\$	3,650,355

The total consideration transferred is comprised of the following:

		Amount
Cash	\$	250,000
Consideration payable		1,099,014
Obligation to issue shares		1,998,053
Contingent consideration in obligation to issue shares		2,517,302
Total consideration	\$	5,864,369

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in US dollars, unless otherwise stated)

4. BUSINESS COMBINATION (continued)

The total consideration transferred for the acquisition is summarized below:

Obligation to issue shares

a) Class B non-voting common shares

TraceSafe Tech issued 4,516,395 Class B non-voting common shares which are convertible into Class A common shares of the Company on a 1:1 basis. The fair value of these shares on the date of issuance was \$1,998,053. The shares are classified as equity in the consolidated financial statements.

b) Class C non-voting preferred shares

TraceSafe Tech issued 494,535 Class C preferred shares which had a fair value on issuance of \$30. The Class C preferred shares are contingently convertible into Class B non-voting common shares of TraceSafe Tech on a 1:13 basis upon completion of a specific milestone.

Both the Class B non-voting common shares and the Class C non-voting preferred shares have been presented in equity as obligation to issue shares because they are both convertible into Class A common shares of the Company and have not yet been converted as at the year-end.

Contingent consideration in obligation to issue shares

TraceSafe Tech issued 494,535 Class A preferred shares and 494,535 Class B preferred shares with a fair value at issuance of \$2,517,272.

The Class A preferred shares are contingently convertible into Class B non-voting common shares of TraceSafe Tech on a 1:13 basis if the commercialization of the acquired technology generates \$500,000 in gross revenues, as recognizable under IFRS, on or before July 31, 2020 ("milestone date").

The Class B preferred shares are contingently convertible into Class B non-voting common shares of TraceSafe Tech on a 1:13 basis upon the procurement of contracts in at least six internationally recognized countries, and achieving a minimum annual sales volume of 100,000 units on a pro rata basis by July 31, 2020. The contingent consideration was classified as a financial liability measured at FVTPL on the acquisition date as the amount will be settled in a variable number of shares.

The Company determined the fair value of the contingent consideration on the acquisition date May 12, 2020 by using Monte Carlo simulation approach applied with the following assumptions, incorporated with certain estimate made on projected sale:

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

*(Expressed in US dollars, unless otherwise stated)***4. BUSINESS COMBINATION** (continued)

	Shares of TraceSafe Tech			
	Class B Common Share	Class A Preferred Share	Class B Preferred Share	Class C Preferred Share
Stock price of Class A common shares of the Company applied	0.61445	0.61445	0.61445	0.61445
Expected annualized	55%	55%	55%	55%
Discount lack of marketability	28%	28%	28%	28%
Weighted average cost of capital	12%	12%	12%	12%
Probability of achieving milestone		68.32%	20.18%	0.001%

On June 6, 2020, the Company determined there was a change in circumstance with the event of first sale and remeasured the fair value of the contingent consideration in obligation to issue shares, which comprise of Class A preferred shares and Class B preferred shares, using the following assumptions, incorporated with certain estimate made on projected sale:

	Shares of TraceSafe Tech	
	Class A Preferred Share	Class B Preferred Share
Stock price of Class A common shares of the Company applied	0.89511	0.89511
Expected annualized volatility	30%	30%
Discount lack of marketability	22%	22%
Weighted average cost of capital	12%	12%
Probability of achieving milestone	100%	50%

As a result from the remeasurement on the fair value of the consideration and contingent consideration, there is a change in the fair value of contingent consideration liability in of \$2,782,081 (note 5) recognized on the consolidated statement of comprehensive loss. Immediately subsequent to the remeasurement, the contingent consideration in obligation to issue shares are reclassified from liability to obligation to issue shares under equity.

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

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4. BUSINESS COMBINATION (continued)

A summary of the carrying values of the instruments involved in the acquisition measured at the various dates is as following:

	Shares of TraceSafe Tech			
	Class B Common Share	Class A Preferred Share	Class B Preferred Share	Class C Preferred Share
<i>As at May 12, 2020</i>				
Value	\$ 1,998,053	\$ 1,943,290	\$ 573,982	\$ 30
<i>As at June 6, 2020</i>				
Value	\$ 1,998,053	\$ 4,239,480	\$ 1,059,873	\$ 30
<i>As at December 31, 2020</i>				
Value	\$ 1,998,053	\$ 4,239,480	\$ 1,059,873	\$ 30

During the year ended December 31, 2020, TraceSafe Tech contributed a net loss of \$4,189,216 to the consolidated statements of comprehensive loss of the Company.

5. 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 as described in Note 4. During the year ended December 31, 2020, the continuity of equity attributable to the non-controlling interest is as follows:

	Amount
Initial recognition of obligations to issue shares and contingent consideration liability on May 12, 2020 (note 4)	\$ 4,515,355
Remeasurement of contingent consideration liability on June 6, 2020 (note 4)	2,782,081
Obligation to issue shares	7,297,436
Effect of change in ownership of TraceSafe Tech on achieving milestone (note 4)	116,727
Net loss for the year	(3,899,748)
Net loss attributable to non-controlling interest	(3,783,021)
Equity attributable to non-controlling interest	\$ 3,514,415

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

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*(Expressed in US dollars, unless otherwise stated)***5. NON-CONTROLLING INTEREST** (continued)

The following is the summarized statement of financial position of TraceSafe Tech as at December 31, 2020:

	December 31, 2020	
Current:		
Assets	\$	1,619,493
Liabilities		(2,486,961)
Total current net liabilities		(867,468)
Non-current:		
Assets		4,616,688
Liabilities		-
Total non-current net assets		4,616,688
Total net assets	\$	3,749,220

The following is the summarized comprehensive loss of TraceSafe Tech for the year ended December 31, 2020:

	December 31, 2020	
Revenue	\$	2,429,683
Expenses		(6,618,899)
Total comprehensive loss	\$	(4,189,216)

6. RESTRICTED TERM DEPOSITS

	Estimated Term	December 31, 2020		December 31, 2019	
CAD\$ GIC deposit	1 year	\$	22,580	\$	-
USD\$ GIC deposit	1 year		28,750		-
		\$	51,330	\$	-

The restricted term deposits comprise of fund deposited in two Guaranteed Investment Certificates ("GIC") saving accounts required by the bank for the collateral for the Company's credit cards. The deposits earn interest at 0.10% per annum, both have maturity dates on September 15, 2021 and renew automatically so long as the credit cards are in use. During the year ended December 31, 2020, there was \$30 interest income earned on these deposits.

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7. TRADE AND OTHER RECEIVABLES

	December 31, 2020	December 31, 2019
Trade receivables	\$ 1,927,002	\$ -
Other receivables (note 9)	111,196	1,196
	2,038,198	1,196
Less: allowance of doubtful accounts	(20,428)	-
	\$ 2,017,770	\$ 1,196

During the year ended December 31, 2020, a \$20,428 (2019 - \$nil) bad debt provision was recorded against the trade receivables for the expected credit loss.

Included in other receivables is a loan receivable of \$110,000 (2019 - \$nil) related to a promissory note signed on January 17, 2020, whereby the Company advanced \$150,000 to an unrelated party. The promissory note bears no interest and is due on demand with 30 days' notice. During the year ended December 31, 2020, \$40,000 was repaid to the Company. On March 2, 2021, the Company signed a debt settlement agreement whereby the Company advanced \$150,000 to an unrelated party. The debt settlement agreement resulted in the repayment of the \$110,000 principal amount plus \$11,844 in interest.

8. PREPAID EXPENSES AND DEPOSITS

	December 31, 2020	December 31, 2019
Deposits for production	\$ 773,081	\$ -
Prepaid expenses	46,981	23,067
	\$ 820,062	\$ 23,067

The Company engaged WiSilica to for product assembly and manufacturing in order to fulfill its sales orders. As at December 31, 2020, the Company had amounts of \$773,081 (2019 - \$nil) as the deposit of production.

9. INVESTMENT:

On March 12, 2019, the Company purchased 9,876,191 Class A Voting Common Shares ("Airbeam Shares") of Airbeam Wireless Technologies Inc. ("Airbeam") for total consideration of \$882,000 (CAD\$1,185,143).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. INVESTMENT (continued):

The Company has determined it does not have control or significant influence over Airbeam and has therefore classified its investment as a financial asset. Further, the Company elected to classify its investment in Airbeam as financial asset measured at FVTOCI. During the year ended December 31, 2020, a change of \$2,220,704 in the fair value of the investment in Airbeam was determined with reference to the historical transaction price of the most recent financing completed. The amount is recognized as other comprehensive income on the consolidated statement of comprehensive loss.

Airbeam is considered a related party as the CEO and director of the Company is also a minority controlling independent director of Airbeam. As at December 31, 2020, the Company had an amount of \$1,196 (2019 - \$1,196) receivable from Airbeam.

	Fair value	Cost
Carrying value at December 31, 2019	\$ 882,000	\$ 882,000
Remeasurement on investment in Airbeam	2,220,704	-
Carrying value at December 31, 2020	\$ 3,102,704	\$ 882,000

10. INTANGIBLE ASSET

The Company's intangible asset comprises of the acquired TraceSafe technology. A continuity of the intangible asset during the year ended December 31, 2020 include the following:

Cost	Amount
As at December 31, 2019	\$ -
Additions (note 4)	1,115,000
As at December 31, 2020	\$ 1,115,000

Accumulated Amortization	Amount
As at December 31, 2019	\$ -
Amortization	148,667
As at December 31, 2020	\$ 148,667

Net book value	Amount
As at December 31, 2019	\$ -
As at December 31, 2020	\$ 966,333

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11. Goodwill

As described in note 4, the Company recognized goodwill of \$3,650,355 (2019 - \$nil) upon the completion of the business combination. This goodwill represents the excess purchase price paid by the Company over the fair value of net tangible and intangible assets identified in the calculated purchase price. The goodwill recognized on acquisition is attributable mainly to the expected future growth potential and expanded business operation as a result of the completion of the business combination.

The Company tests the recoverability of its goodwill annually, or more frequently if events or changes in circumstances indicate that they might be impaired. As at December 31, 2020, the Company recorded \$nil impairment charge related to its goodwill.

12. TRADE PAYABLES AND ACCRUED LIABILITIES

	December 31, 2020		December 31, 2019	
Accounts payable	\$	931,193	\$	55,563
Accrued liabilities		397,530		24,392
	\$	1,328,723	\$	79,955

13. LOANS PAYABLE

	December 31, 2020		December 31, 2019	
Balance, beginning	\$	204,449	\$	-
Addition		1,422,597		202,678
Interest accrued		45,188		1,771
Effect of foreign exchange translation		(14,059)		-
Settlement of loan through issuance of common shares		(190,390)		-
Balance, ending	\$	1,467,785	\$	204,449

Convertible loan

On November 28, 2019, the Company issued convertible loans in the amount of \$202,678 (CAD \$264,000). These loans were unsecured, 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, are convertible into common shares at \$0.46 (CAD\$0.60) per common share.

On April 2, 2020, the Company retired all the convertible loans through the issuance of 899,847 common in settlement of CAD\$264,000 in principal and CAD\$5,954 in accrued interest.

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13. LOANS PAYABLE (continued):

Receivable factoring facility

On November 3, 2020, the Company entered into a working capital facility agreement for a factoring facility of \$1,500,000. 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 December 31, 2020, the Company has received \$1,422,597 gross proceeds in this receivable factoring facility, net with transaction costs of \$60,150. The Company has incurred \$45,188 in accrued interest.

14. 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.

Issued

Year ended December 31, 2020

On January 15, 2020, the Company awarded 4,250,000 performance shares awards to certain directors. Each performance share represents one common share and vests upon satisfaction of certain milestones and over 3 years. On March 25, 2020, the Company issued 1,700,000 common shares as part of the achievement of a performance milestone. The Company has recorded in stock-based compensation \$547,126 for the fair value of the vested compensation of 1,700,000 performance shares issued and \$820,690 for the 2,550,000 performance shares awarded but unissued.

On March 2, 2020, the Company issued 1,097,213 common shares for proceeds of \$246,454 (CAD\$329,164).

On April 2, 2020, the Company retired all of its convertible debentures through the issuance of 899,847 common shares in settlement of \$190,390 for the outstanding principal and accrued interest.

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14. SHARE CAPITAL (continued)

Issued (continued)

Year ended December 31, 2020 (continued)

In April, 2020, the Company issued an aggregate of 5,352,330 units for gross proceeds of \$1,136,337 (CAD\$1,605,699). Each unit comprises of one common share and one half share purchase warrant. Each whole warrant is exercisable to purchase one common share at a price of CAD\$0.50 for a period of 24 months from the closing date. In connection with share issuances, the Company paid a finder's fee of \$19,974. The warrants were valued at \$nil using the residual method.

During August and December 2020, the Company issued an aggregate of 4,005,000 units at a price of CAD\$1.00 per unit for gross proceeds of \$2,993,946 (CAD\$4,005,000). Each unit consisted of one common share and one half warrant exercisable into one common share at a price of CAD\$1.50 for a period of 24 months from the closing date. The warrants were valued at \$nil using the residual method.

In connection with share issuances, the Company paid a finder's fee of \$388,605. In addition, the Company issued an aggregate of 215,850 agent warrants ("Agent Warrant") valued at \$110,178 to the agent and other brokers, as well as 80,100 units valued at \$59,878 (CAD\$80,100) to the agent as corporate finance fee. Each Agent Warrant entitles the holder to acquire one unit ("Agent Warrant Unit") at CAD\$1.00 per unit for a period of 24 months from the date of issuance. Each Agent Warrant Unit consists of one Common Share and one half common share purchase warrant exercisable to purchase common share at CAD\$1.50 for a period of 24 months from the issuance date.

During the year ended December 31, 2020, total 62,500 common share were issued as a result of the exercise of warrants, for gross proceeds of \$24,093. The warrants were exercised at a weighted average exercise price of CAD\$0.50 per share.

During the year ended December 31, 2020, total 50,000 common share were issued as a result of the exercise of options, for gross proceeds of \$7,807. The options were exercised at a weighted average exercise price of CAD\$0.20 per share.

During the year ended December 31, 2020, total 237,013 common shares were issued as the payment for consulting fees received at total value of \$109,257.

During the year ended December 31, 2020, total 43,750 units were issued to settle a payable in the amount of \$34,454 with a consultant. Each unit consisted of one common share and one half warrant exercisable into one common share at a price of CAD\$1.50 for a period of 24 months from the issuance date. The warrants were valued at \$10,579 using the residual method. There was \$nil gain or loss resulted from the debt settlement.

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14. SHARE CAPITAL (continued)

Issued (continued)

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.

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.

The continuity of the number of stock options outstanding is as follows:

	Number		Weighted average exercise price
Balance, December 31, 2018	250,000	CAD\$	2.40
Forfeited	(237,500)	CAD\$	2.10
Granted	1,500,000	CAD\$	0.20
Outstanding, December 31, 2019	1,512,500	CAD\$	0.21
Forfeited	(12,500)	CAD\$	2.00
Exercised	(50,000)	CAD\$	0.20
Granted	900,000	CAD\$	0.54
Outstanding, December 31, 2020	2,350,000	CAD\$	0.33

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14. SHARE CAPITAL (continued)

Stock options (continued)

As at December 31, 2020, the following options were outstanding:

Number of options		Expiry date		Exercise price	Weighted remaining contractual life (years)
<i>Outstanding</i>	<i>Exercisable</i>				
1,450,000	1,450,000	October 15, 2023	CAD\$	0.20	2.79
500,000	500,000	September 15, 2025	CAD\$	0.62	4.71
300,000	300,000	November 29, 2025	CAD\$	0.40	4.92
100,000	100,000	November 9, 2025	CAD\$	0.52	4.86
2,350,000	2,350,000				

Warrants

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

	Number		Weighted average exercise price
Outstanding, December 31, 2019 and 2018	-	CAD\$	-
Issued	2,676,172	CAD\$	0.50
Issued	2,280,275	CAD\$	1.45
Exercised	(62,500)	CAD\$	0.50
Outstanding, December 31, 2020	4,893,947	CAD\$	0.94

As at December 31, 2020, the following warrants were outstanding:

Number of warrants	Expiry date		Exercise price	Weighted remaining contractual life (years)
2,397,004	April 6, 2022	CAD\$	0.50	1.26
216,668	April 29, 2022	CAD\$	0.50	1.33
2,064,425	August 7, 2022	CAD\$	1.50	1.60
215,850	August 7, 2022	CAD\$	1.00	1.60
4,893,947				

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14. SHARE CAPITAL (continued)

Reserves

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

Option reserve

	Amounts
Balance, December 31, 2018	\$ 1,513,866
Forfeited	(91,601)
Stock-based compensation	9,190
Outstanding, December 31, 2019	\$ 1,431,455
Forfeited	(16,629)
Exercised	(15,255)
Stock-based compensation	265,751
Outstanding, December 31, 2020	\$ 1,665,322

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its options granted during the year ended December 31, 2020. The fair value of each option granted was calculated using the following assumptions:

Expected life (years)	5
Risk-free interest rate	0.37% - 0.49%
Expected annualized volatility	133% - 136%
Dividend yield	0%
Stock price at grant date	CAD\$0.35 - CAD\$0.70
Exercise price	CAD\$0.40 - CAD\$0.62
Grant date fair value	\$0.30 - \$0.61

The Company has used a volatility of 134% with reference to the historical record of the Company.

Warrants reserve

	Amounts
Outstanding, December 31, 2019 and 2018	\$ -
Agent warrant issued	110,178
Exercised	(33,198)
Outstanding, December 31, 2020	\$ 76,980

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

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14. SHARE CAPITAL (continued)

Reserves (continued)

Warrants reserve (continued)

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its warrants granted during the year ended December 31, 2020. The fair value of each Agent Warrants issued was calculated using the following assumptions:

Expected life (years)	2
Risk-free interest rate	0.27%
Expected annualized volatility	186%
Dividend yield	0%
Stock price at grant date	CAD\$0.90
Exercise price	CAD\$1.50
Grant date fair value	\$0.68

15. RELATED PARTY TRANSACTIONS AND BALANCES

Key management compensation

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 transactions with directors and key management personnel during the years ended December 31, 2020 and 2019 was as follows:

	December 31, 2020		December 31, 2019	
Management fees	\$	430,938	\$	223,533
Professional fees		79,228		55,757
Share-based compensation		736,062		9,190
	\$	1,246,228	\$	288,480

Transactions with WiSilica

WiSilica is a non-voting majority shareholder of TraceSafe Tech (note 4 and 5), in addition, the Chief Executive Officer of TraceSafe Tech is a significant shareholder of WiSilica. The transactions incurred with WiSilica during the years ended December 31, 2020 and 2019 include the following:

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15. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Transactions with WiSilica (continued)

	December 31, 2020	December 31, 2019
Inventory purchases, included in costs of revenue	\$ 1,096,507	\$ -
Research and development	1,166,022	-
Finance costs	103,343	-
Other administration cost, included general and administration	97,444	-
	\$ 2,463,316	\$ -

The transactions with WiSilica were incurred in the normal course of business pursuant to certain transition agreement (note 4).

Related party balances

As the December 31, 2020, there was \$346,137 (2019 - \$nil) outstanding to WiSilica included in accounts payable and accrued liabilities.

As at December 31, 2020, there was a balance of \$nil (2019 - \$5,314) in professional fees accrued as payable to the Company's Chief Financial Officer ("CFO").

As at December 31, 2020, there was a balance of \$1,990 (2019 - \$65,406) in director fees accrued as payable to independent directors of the Company.

16. FINANCIAL RISK AND CAPITAL MANAGEMENT

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

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16. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Fair value (continued)

The carrying value of the Company's financial assets and liabilities including cash, restricted term deposit, trade and other receivables, trade payables and loans payable included in the consolidated statement of financial position at December 31, 2020 and 2019 approximate their fair value due to their short terms to maturity.

The investment in Airbeam were measured at its fair value as at December 31, 2020 and 2019. The fair value was measured using level 2 input for both December 31, 2020 and 2019.

No transfers occurred between the levels during the year.

Financial risks

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.

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 and trade and other receivables. 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.

Credit risk associated with trade and other receivables are mitigated by the Company by assessing the credit quality of the potential customers and monitoring the existing customer. To determine the collectability of a trade receivable, the Company considers any change in credit quality, from the date the credit was initially granted to the reporting date. The Company recognizes a loss allowance for expected credit losses when there is evidence of impairment exists on an individual and collective basis for trade and other receivables.

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.

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16. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Financial risks (continued)

Liquidity Risk (continued)

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 certain entities, such as the parent company and TraceSafe Asia Pacific Pte Ltd. are exposed to currency risk as they may generate revenue or incur expenditures that are denominated in a currency other than its functional currency, primarily the US dollar. 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.

17. Capital Management

The Company manages its capital structure and makes adjustments to 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.

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18. REVENUE AND COST OF REVENUE

Revenue

The Company's sales strategic focus is to provide a full suite of real-time location management services and contact tracing solutions enabled through advanced bluetooth beacons in a variety of form factors.

The revenue generated from different sources during the year ended December 31, 2020 are listed below:

	December 31, 2020
Tracking devices	\$ 2,522,844
Gateway	927,460
System support	125,062
	\$ 3,559,959

During the year ended December 31, 2020, there were three customers that generated in total \$3,018,308 in revenue, who each individually had contributed more than 10% of the total revenue of the Company. As the December 31, 2020, there were \$1,239,939 in trade and other receivables for the amounts due from one of these customers.

Cost of revenue

The costs of revenue incurred during the year ended December 31, 2020 were comprised of the following:

	December 31, 2020
Product cost	\$ 1,851,224
Labour cost	135,785
Other costs	34,406
Total cost of revenue	\$ 2,021,415

19. SEGMENT INFORMATION

Reportable segments

The Company has two divisions, which are its reportable segments, of TraceSafe technology and Investment. Operating segments are components of an entity that engage in business activities from which they earn revenues and incur expenses. The TraceSafe technology division focuses on providing real-time location management services and contact tracing solutions and the Investment division focuses on managing the Company's strategic investment in Airbeam.

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*(Expressed in US dollars, unless otherwise stated)***19. SEGMENT INFORMATION** (continued)*Reportable segments (continued)*

Information related to each reportable segment for the year ended December 31, 2020 is set out below:

	TraceSafe technology		Investment	Total
Revenue	\$	3,559,959	\$ -	\$ 3,559,959
Cost of revenue		(2,021,415)	-	(2,021,415)
Net loss		(7,739,493)	-	(7,739,493)
Other comprehensive income	\$	9,573	\$ 2,220,704	\$ 2,230,277

Geographic segments

The Company's financial information by geography for the years ended December 31, 2020 and 2019 is as follows:

December 31, 2020:

	Revenue		Non-current assets
Singapore	\$	1,397,675	\$ -
Hong Kong		1,817,370	-
United States		166,720	4,616,688
Cayman Island		81,411	-
Canada		72,954	-
British Virgin Island and other		23,829	3,102,704
Total	\$	3,559,959	\$ 7,719,392

December 31, 2019:

	Revenue		Non-current assets
British Virgin Island and other	\$	-	\$ 882,000
Total	\$	-	\$ 882,000

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20. COMMITMENT

The Company entered into a lease for its office premise in Singapore. The lease commenced on January 1, 2021 and has a three-year term expiring on January 1, 2023. The undiscounted minimum lease payments for the next three years are as following:

Fiscal Year	Amount
2021	\$ 56,800
2022	56,800
2023	56,800
Total	\$ 170,400

21. SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes the supplemental cash flow information for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Shares issued to settle conversion debentures (note 14)	\$ 190,390	\$ -
Shares issued to settle payable debt (note 14)	34,454	-
Agent Units issued for share issuance cost (note 14)	59,878	-

22. INCOME TAX

The income tax provisions differ from the expected amounts calculated by applying British Virgin Islands corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	December 31, 2020	December 31, 2019
Net loss	\$ (7,739,493)	\$ (666,016)
Statutory tax rate of the parent	0%	0%
Impact of different foreign statutory tax rates on earnings of subsidiaries	(1,175,000)	-
Permanent differences	(495,224)	-
Non-deductible expenditures	781,224	-
Change in unrecognized deferred assets	889,000	-
Income tax recovery	\$ -	\$ -

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22. INCOME TAX (continued)

The Company's tax-effected future income tax assets and liabilities are estimated as follows:

	December 31, 2020	December 31, 2019
Deferred income tax assets		
Non-capital loss carry-forwards	\$ 161,000	\$ -
Goodwill	699,000	-
Intangible assets	29,000	-
	889,000	-
Less: Valuation allowance	(889,000)	-
Net deferred income tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$576,000 in United States which expire in the years 2040. Tax attributes are subject to review and potential adjustment by tax authorities.

23. SUBSEQUENT EVENTS

Subsequent to year ended December 31, 2020, 1,646,836 warrants and options were exercised for proceeds of CAD\$714,418.

On January 14, 2021, 100,000 options were granted with an exercisable price of CAD\$0.60 per share. The options expire on January 14, 2026 and vest by 1/3 immediately, 1/3 one year from the grant date and the remaining 1/3 two years from the grant date.

Subsequent to the year ended December 31, 2020, 5,550,000 common shares were issued to certain officers and directors under share performance agreements and 212,014 common shares were issued for consulting services.