

# tracesafe

**TraceSafe Inc.**

Condensed Interim Consolidated Financial Statements  
Period Ended March 31, 2022  
(Expressed in United States dollars unless otherwise stated)

**TraceSafe Inc.**

## Condensed Interim Consolidated Statements of Financial Position

*(Expressed in US Dollars-Unaudited)*

	Notes	March 31 2022	December 31 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 377,878	\$ 356,665
Restricted term deposit	5	51,793	51,543
Accounts Receivable	6	562,020	510,245
Prepays	7	252,589	343,408
Inventories	8	437,735	556,962
Deferred contract asset	14	189,162	209,429
<b>Total current assets</b>		<b>1,871,178</b>	<b>2,028,252</b>
Property and equipment	9	55,437	64,294
Investment	10	2,202,449	2,202,449
<b>Total Assets</b>		<b>\$ 4,129,064</b>	<b>\$ 4,294,995</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>Current liabilities</b>			
Trade payables and accrued liabilities	13	\$ 1,824,310	\$ 2,387,692
Deferred revenue	14	433,649	1,154,921
Loans payable	15	596,415	756,275
<b>Total current liabilities</b>		<b>2,854,374</b>	<b>4,298,888</b>
Loans payable	15	2,031,131	-
Derivative liabilities	15	416,253	-
<b>Total Liabilities</b>		<b>5,301,758</b>	<b>4,298,888</b>
<b>Shareholders' Equity</b>			
Share Capital	16	19,918,460	19,840,230
Reserves	16	1,439,039	898,122
Accumulated other comprehensive income		1,271,782	1,279,742
Deficit		(17,139,754)	(15,806,306)
Equity attributable to owners of the parent		5,489,527	6,211,788
Equity attributable to non-controlling interest	4	(6,662,221)	(6,215,681)
<b>Total Shareholders' Equity</b>		<b>(1,172,694)</b>	<b>(3,893)</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 4,129,064</b>	<b>\$ 4,294,995</b>

Nature and continuance of operations (note 1)

Commitment (note 22)

Subsequent events (note 25)

Approved and authorized for issuance by the Board of Directors on May 30, 2022.

*"James Passin"*

Director

*"Wayne Lloyd"*

Director

*The accompanying notes are an integral part of the condensed interim consolidated financial statements.*

**TraceSafe Inc.**

## Condensed Interim Consolidated Statements of Comprehensive Loss

*(Expressed in US Dollars-Unaudited)*

	Notes	Periods Ended March 31,	
		2022	2021
<b>Revenue</b>			
Product sale	20	\$ 434,168	\$ 840,235
Service income	20	822,816	446,940
		1,256,984	1,287,175
<b>Cost of revenue</b>	20	(400,876)	(1,139,924)
		856,108	147,251
<b>Operating expenses</b>			
Bad debt expense	6	-	5,000
Bank Fees		4,037	3,862
Amortization	9,11	8,857	743
Research and development	17	438,979	455,914
General and administration	17	119,622	242,778
Marketing		59,059	28,188
Personnel	17	989,476	1,003,843
Professional Fees	17	583,183	171,147
Regulatory		2,969	13,918
Stock-Based Compensation	16,17	540,916	2,126,286
		2,747,098	4,051,679
<b>Operating loss</b>		(1,890,990)	(3,904,428)
<b>Other items</b>			
Change in fair value of derivative liability	15	(342,263)	
Other income	24	(52,673)	(11,891)
Finance costs	16	257,478	113,772
Foreign exchange		26,456	11,499
<b>Net loss</b>		(1,779,988)	(4,017,808)
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(7,956)	-
<b>Total comprehensive loss</b>		\$ (1,787,944)	\$ (4,017,808)
<b>Total comprehensive loss for the period attributable to:</b>			
Owners of the parent	4	\$ (1,341,405)	\$ (2,884,902)
Non-controlling interest		(446,539)	(1,132,905)
<b>Total comprehensive loss</b>		\$ (1,787,944)	\$ (4,017,808)
<b>Loss per share - basic and diluted</b>		\$ (0.03)	\$ (0.08)
<b>Weighted average number of shares outstanding</b>			
- basic and diluted		42,906,772	37,744,730

*The accompanying notes are an integral part of the condensed interim consolidated financial statements.*

# TraceSafe Inc.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in US Dollars-Unaudited)

	Share Capital		Obligation to issue shares	Reserves	Accumulated Other Comprehensive Income	Deficit	Equity attributable to owners of parent	Equity attributable to non-controlling interest	Total
	Number of Shares	Amount							
<b>Balance, December 31, 2020</b>	<b>35,765,784</b>	<b>\$ 15,946,318</b>	<b>\$ 820,690</b>	<b>\$ 1,752,881</b>	<b>\$ 2,195,480</b>	<b>\$ (15,916,656)</b>	<b>\$ 4,798,713</b>	<b>\$ 3,514,415</b>	<b>\$ 8,313,128</b>
Shares issued pursuant to acquisition agreement	4,400,000	1,848,049	-	-	-	-	1,848,049	(1,848,049)	-
Options exercised	455,000	166,727	-	(72,600)	-	-	94,127	-	94,127
Warrants exercised	1,300,170	511,433	-	-	-	-	511,433	-	511,433
Shares issued for services	1,240,301	566,638	-	-	-	-	566,638	-	566,638
Stock-based compensation	-	-	-	328,052	-	-	328,052	-	328,052
Performance shares issued	2,550,000	820,690	(820,690)	-	-	-	-	-	-
Option reserve adjusted due to forfeiture	-	-	-	(1,218,132)	-	1,218,132	-	-	-
Warrant reserve adjusted from share capital	-	(19,625)	-	22,619	-	-	2,994	-	2,994
Equity component on convertible debenture	-	-	-	85,302	-	-	85,302	-	85,302
Remeasurement investment in Airbeam	-	-	-	-	(900,255)	-	(900,255)	-	(900,255)
Translation difference	-	-	-	-	(15,483)	-	(15,483)	-	(15,483)
Net loss for the year	-	-	-	-	-	(1,107,782)	(1,107,782)	(7,882,047)	(8,989,829)
<b>Balance December 31, 2021</b>	<b>45,711,255</b>	<b>\$ 19,840,230</b>	<b>\$ -</b>	<b>\$ 898,122</b>	<b>\$ 1,279,742</b>	<b>\$ (15,806,306)</b>	<b>\$ 6,211,788</b>	<b>\$ (6,215,681)</b>	<b>\$ (3,893)</b>
Shares issued for services	350,000	78,229	-	-	-	-	78,229	-	78,229
Stock-based compensation	-	-	-	540,916	-	-	540,916	-	540,916
Translation difference	-	-	-	-	(7,956)	-	(7,956)	-	(7,956)
Net loss for the period	-	-	-	-	-	(1,333,449)	(1,333,449)	(446,539)	(1,779,988)
<b>Balance March 31, 2022</b>	<b>46,061,255</b>	<b>\$ 19,918,460</b>	<b>\$ -</b>	<b>\$ 1,439,039</b>	<b>\$ 1,271,782</b>	<b>\$ (17,139,754)</b>	<b>\$ 5,489,527</b>	<b>\$ (6,662,221)</b>	<b>\$ (1,172,692)</b>

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

**TraceSafe Inc.**

## Condensed Interim Consolidated Statements of Cash Flows

*(Expressed in US Dollars-Unaudited)*

	Period ended March 31,	
	2022	2021
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net loss	\$ (1,779,988)	\$ (4,017,808)
Adjustment to reconcile non-cash items		
Amortization	8,857	743
Finance costs	257,478	-
Change in fair value of derivative liability	(342,263)	-
Non-cash interest	(249)	-
Shares issued for services	78,229	-
Share-based compensation	540,916	-
Foreign exchange	17,586	-
Changes in working capital		
Accounts receivable	(51,775)	913,339
Prepays	90,819	(370,270)
Inventories	119,228	-
Trade payables and accrued liabilities	(563,382)	(168,584)
Deferred revenue	(721,272)	379,600
Deferred contract asset	20,267	-
<b>Net cash used in operating activities</b>	<b>(2,325,548)</b>	<b>(2,522,440)</b>
<b>Investing activities</b>		
Purchase of property and equipment	-	(28,577)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(28,577)</b>
<b>Financing activities</b>		
Lease payments	(6,608)	-
Proceeds from share issuance	-	2,821,622
Proceeds from issuance of convertible debt	3,000,000	-
Convertible debt transaction costs	(400,000)	-
Repayment of loan payable	(253,039)	(304,361)
Proceeds from loan payable	-	110,000
<b>Net cash provided by financing activities</b>	<b>2,340,353</b>	<b>2,627,261</b>
Change in cash	14,805	76,237
Effect of change in foreign exchange rates	6,408	(6)
Cash, beginning of period	356,665	605,426
<b>Cash, end of period</b>	<b>\$ 377,878</b>	<b>\$ 681,664</b>

**Supplemental cash flow information (note 24)***The accompanying notes are an integral part of the condensed interim consolidated financial statements.*

## **TraceSafe Inc.**

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2022 (Expressed in US Dollars, unless otherwise stated - Unaudited)**

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#### **1. NATURE AND CONTINUANCE OF OPERATIONS**

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

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

The assessment of the Company’s ability to continue as a going concern, and its ability to fund potential projects involves significant judgement based on historical experience and other factors (including expectation of future events). The Company’s business involves a high degree of risk and there can be no assurance that current business development activity will ultimately result in profitable operations. The Company’s continued existence is dependent upon its ability to secure future customers and the achievement of profitable operations, and the ability of the Company to raise additional financing. 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. These financial statements do not reflect adjustments to the carrying values of assets and liabilities, the reported revenue and expenses, and the statement of financial position classification used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

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

#### **2. BASIS OF PREPARATION**

The condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 – Interim Financial Reporting.

These condensed interim consolidated financial statements do not include all of the information required for full IFRS financial statements and therefore should be read in conjunction with the Company’s most recent audited consolidated financial statements for the year ended December 31, 2021, which were prepared in accordance with IFRS as issued by IASB.

The accounting policies and methods of application applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the Company’s most recent audited consolidated financial statements for the year ended December 31, 2021.

## TraceSafe Inc.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2022

*(Expressed in US Dollars, unless otherwise stated - Unaudited)*

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#### 2. BASIS OF PREPARATION (continued)

The preparation of these condensed interim consolidated financial statements in conformity with IFRS also requires management to make estimates and judgements that may have a significant impact on these condensed interim consolidated financial statements. Estimates are continuously evaluated and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates. The critical accounting judgements and estimates were presented in the Company's most recent audited consolidated financial statements for the year ended December 31, 2021 and are the same as those applied for the three months ended March 31, 2022.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 30, 2022.

#### 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:

		Percentage Owned	
	Jurisdiction of Incorporation	March 31, 2022	March 31, 2021
Jucca Holdings Limited	British Virgin Islands	100%	100%
Wishland Properties Limited	British Virgin Islands	100%	100%
TraceSafe Technologies Inc. ("TraceSafe Tech")	Nevada, United States	8.2%	6.3%
TraceSafe Asia Pacific Pte Ltd. ("TraceSafe Asia")	Singapore	70%	100%
TraceSafe Canada Inc.	British Columbia, Canada	100%	-

The Company holds 100% of the voting common shares of 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)

## **TraceSafe Inc.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31, 2022  
*(Expressed in US Dollars, unless otherwise stated - Unaudited)*

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### **2. BASIS OF PREPARATION (continued)**

The Company allotted 30% of the voting shares of the subsidiary, TraceSafe Asia to an executive employee. The Company retains 70% of the voting shares. This is required per the local laws of the Republic of Singapore to have a local director to manage the day-to-day operations and act as a representative of the Company. Due to certain agreements related to this arrangement, the executive agrees, unless authorized by the Company, to not offer, sell, contract to sell, grant or sell any option to purchase these shares to any third parties. Upon termination of the relationship with the executive and the Company, the Company retains the right to repurchase the voting shares for no additional consideration.

On March 1, 2021, TraceSafe Canada Inc. was incorporated in the province of British Columbia, Canada. On January 19, 2022, Jucca Holdings Limited has been dissolved.

Inter-company balances and transactions are eliminated on consolidation.



## TraceSafe Inc.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2022 (Expressed in US Dollars, unless otherwise stated - Unaudited)

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#### 3. 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 identifiable 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.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2022 (Expressed in US Dollars, unless otherwise stated - Unaudited)

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#### 3. 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 were 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 were presented in equity as obligation to issue shares as at December 31, 2020.

##### *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 were 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 were 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.

##### *Performance obligation milestones*

By July 31, 2020, the first and second milestone was met. On April 26, 2021, TraceSafe Tech issued 12,857,910 Class B non-voting common shares to Wisilica in exchange of 494,535 Class A preferred shares and 494,535 Class B preferred shares in TraceSafe Tech.

## TraceSafe Inc.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31, 2022  
(Expressed in US Dollars, unless otherwise stated - Unaudited)

### 3. BUSINESS COMBINATION (continued)

#### Shares Exchange

The Company issued 4,400,000 Class A common shares to Wisilica in exchange for 4,400,000 Class B non-voting common shares in TraceSafe Tech during the year ended, December 31, 2021 (note 17). Wisilica holds 12,974,305 Class B non-voting shares as at year end, December 31, 2021, representing a non-controlling interest of 91.8%.

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:

	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 volatility	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%

**TraceSafe Inc.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31, 2022  
(Expressed in US Dollars, unless otherwise stated - Unaudited)****3. BUSINESS COMBINATION** (continued)

As a result from the remeasurement on the fair value of the consideration and contingent consideration, during the year ended December 31, 2020, the Company recorded a change in the fair value of contingent consideration liability of \$2,782,081 (note 5) in profit or loss and immediately subsequent to the remeasurement, reclassified the contingent consideration from liability to equity.

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 Prefered Share	Class B Prefered Share	Class C Prefered 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

**TraceSafe Inc.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED MARCH 31, 2022  
*(Expressed in US Dollars, unless otherwise stated - Unaudited)*

**4. NON-CONTROLLING INTEREST****TraceSafe Tech**

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. The continuity of equity attributable to the non-controlling interest is as follows:

*For year ended December 31, 2021*

	<b>Amount</b>
Balance, December 31, 2020	\$ 3,514,415
Shares issued pursuant to acquisition agreement (note 3)	(1,848,049)
Net loss for the period	(8,032,353)
Net loss attributable to non-controlling interest	(9,880,402)
Equity attributable to non-controlling interest	\$ (6,365,987)

*For period ended March 31, 2022*

	<b>Amount</b>
Balance, December 31, 2021	\$ (6,365,987)
Net loss for the period	(625,290)
Net loss attributable to non-controlling interest	(573,940)
Equity attributable to non-controlling interest	\$ (6,939,927)

The following is the summarized statement of financial position of TraceSafe Tech:

	<b>March 31, 2022</b>	December 31, 2021
Current:		
Assets	\$ 734,434	\$ 891,249
Liabilities	(8,178,975)	(15,529,160)
Total current net liabilities	\$ (7,444,541)	\$ (14,637,911)
Non-current:		
Assets	\$ -	\$ -
Total non-current net assets	-	-
Total net assets	\$ (7,444,541)	\$ (14,637,911)

**TraceSafe Inc.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED MARCH 31, 2022  
*(Expressed in US Dollars, unless otherwise stated - Unaudited)*

**4. NON-CONTROLLING INTEREST** (continued)

The following is the summarized comprehensive loss of TraceSafe Tech for the year ended March 31, 2022 and March 31, 2021:

	<b>March 31, 2022</b>	March 31, 2021
Revenue	\$ 159,759	\$ 783,502
Expenses	(785,049)	(1,995,301)
Total comprehensive loss	\$ (625,290)	\$ (1,211,799)

**TraceSafe Asia**

The non-controlling interest represents the non-voting common shares TraceSafe Asia held by non-controlling interest holders and is related to the executive ownership agreement transferred as described in Note 3. The continuity of equity attributable to the non-controlling interest is as follows:

*For year ended December 31, 2021*

	<b>Amount</b>
Balance - December 31, 2020	-
Net income attributable to non-controlling interest	\$ 150,306
Equity attributable to non-controlling interest	150,306

*For period ended March 31, 2022*

	<b>Amount</b>
Balance - December 31, 2021	\$ 150,306
Net income for the period	424,669
Net income attributable to non-controlling interest	127,401
Equity attributable to non-controlling interest	\$ 277,707

**TraceSafe Inc.**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED MARCH 31, 2022  
*(Expressed in US Dollars, unless otherwise stated - Unaudited)*

**4. NON-CONTROLLING INTEREST** (continued)

The following is the summarized statement of financial position of TraceSafe Asia:

	<b>March 31, 2022</b>		December 31, 2021	
Current:				
Assets	\$	433,766	\$	1,036,818
Liabilities		(609,900)		(615,578)
Total current net liabilities	\$	(176,134)	\$	421,240
Non-current:				
Assets	\$	55,436	\$	64,294
Liabilities		-		-
Total non-current net assets		55,436		64,294
Total net assets	\$	(120,698)	\$	485,534

The following is the summarized comprehensive income of TraceSafe Asia:

	<b>March 31, 2022</b>		March 31, 2021	
Revenue	\$	927,658	\$	503,673
Expenses		(502,989)		(778,580)
Total comprehensive income	\$	424,669	\$	(274,907)

**5. RESTRICTED TERM DEPOSITS**

	<b>Estimated Term</b>	<b>March 31, 2022</b>		December 31, 2021	
CAD\$ GIC deposit	1 year	\$	23,027	\$	22,777
USD\$ GIC deposit	1 year		28,766		28,766
		\$	51,793	\$	51,543

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, 2022 and renew automatically so long as the credit cards are in use. During the period ended March 31, 2022, there was \$249 interest income earned on these deposits.

**TraceSafe Inc.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Trade receivables	\$ 537,682	\$ 586,536
Taxes receivables	23,142	1,196
Other receivables (note 9)	1,196	-
	562,020	578,732
Less: allowance of doubtful accounts	-	(77,487)
	\$ 562,020	\$ 510,245

During the period ended March 31, 2022, a \$nil (2021 - \$5,000) bad debt allowance was recorded against the trade receivables for the expected credit loss.

**7. PREPAID EXPENSES AND DEPOSITS**

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Prepaid expenses	\$ 252,589	\$ 343,408



**TraceSafe Inc.**

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**8. INVENTORIES**

	<b>March 31, 2022</b>	December 31, 2021
Finished goods	\$ 30,727	\$ 36,017
Work in progress	106,470	74,459
Raw materials and other supplies	300,538	446,486
	<b>\$ 437,735</b>	<b>\$ 556,962</b>

Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The cost of inventories may not be recoverable if those inventories have been damaged, become obsolete, selling prices have declined or their estimated costs of completion or the estimated costs to be incurred to make the sale have increase.

**9. PROPERTY AND EQUIPMENT**

<b>Cost</b>		<b>Furniture and fittings</b>		<b>Computer equipment</b>		<b>Right-of- use asset</b>		<b>Total</b>
As at December 31, 2021 and March 31, 2022	\$	19,581	\$	26,114	\$	52,018	\$	97,713
<b>Accumulated Amortization</b>								
As at December 31, 2021	\$	2,216	\$	5,196	\$	26,007	\$	33,419
Amortization		925		1,447		6,485		8,857
As at March 31, 2022	\$	3,141	\$	6,644	\$	32,492	\$	42,276
<b>Net book value</b>								
As at December 31, 2021	\$	17,365	\$	20,918	\$	26,011	\$	64,294
As at March 31, 2022	\$	16,440	\$	19,471	\$	19,526	\$	55,437

## TraceSafe Inc.

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### 10. 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).

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 period ended March 31, 2022, a \$nil, (December 31, 2021 – \$900,255 loss) in the change of fair value of the investment in Airbeam was recorded. The fair value was determined with reference to the historical transaction price of the most recent financing completed as well as the multiple of the most recent fiscal year gross revenue. The amount is recognized as other comprehensive income in 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 March 31, 2022, the Company had an amount of \$1,196 (2021 - \$1,196) receivable from Airbeam.

		Fair value	Cost
Carrying value at December 31, 2020	\$	3,102,704	\$ 882,000
Remeasurement on investment in Airbeam		(900,255)	-
Carrying value at December 31, 2021, and March 31, 2022	\$	2,202,449	\$ 882,000

## TraceSafe Inc.

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### 11. INTANGIBLE ASSET

The Company's intangible asset comprises of the acquired TraceSafe technology. A continuity of the intangible asset include the following:

<b>Cost</b>		<b>Amount</b>
As at December 31, 2021 and March 31, 2022	\$	1,115,000
<b>Accumulated Amortization</b>		
As at December 31, 2020		148,667
Amortization		216,486
Impairment		749,847
As at December 31, 2021 and March 31, 2022	\$	1,115,000
<b>Net book value</b>		
As at December 31, 2021	\$	-
As at March 31, 2022	\$	-

### 12. GOODWILL

As described in note 4, the Company recognized goodwill of \$nil (2020 - \$3,650,355) 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 the circumstances indicate that they might be impaired. As at December 31, 2021, the Company performed the annual goodwill impairment test and determined that the recoverable amount was significantly less than carrying value of the CGUs that goodwill and intangible assets are attributed to and therefore recorded an impairment of the entire balance of the goodwill and intangible assets.

**TraceSafe Inc.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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	<b>March 31, 2022</b>	December 31, 2021
Accounts payable	\$ 1,159,967	\$ 1,809,560
Accrued liabilities	559,352	551,796
Coupons payable	85,263	-
Lease liability	19,728	26,336
	<b>\$ 1,824,310</b>	<b>\$ 2,387,692</b>

**14. DEFERRED REVENUE AND CONTRACT ASSET****Deferred Revenue**

	<b>March 31, 2022</b>	December 31, 2021
Products not shipped, net	\$ 226,261	\$ 227,551
Products and services recognized over time	207,389	927,370
Balance, ending	<b>\$ 433,650</b>	<b>\$ 1,154,921</b>

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. Performance obligations are achieved when products are shipped to customers or when services are rendered. The Company has determined there are no significant financing components in the contracts with customers.

**Deferred contract asset**

	<b>March 31, 2022</b>	December 31, 2021
Balance, opening	\$ 209,429	\$ 209,429
Products and services recognized over time	(20,267)	209,429
Balance, ending	<b>\$ 189,162</b>	<b>\$ 209,429</b>

Deferred contract asset, also referred to as contract assets, include the cost of goods and services incurred, but the corresponding revenue has been deferred as is being recognized over time.

**TraceSafe Inc.**

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**15. LOANS PAYABLE**

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Balance, beginning	\$ 756,275	\$ 1,467,785
Additions	3,000,000	3,979,582
Payments	(253,039)	(5,268,048)
Interest accrued	125,841	50,756
Cash interest	46,223	623,643
Effect of foreign exchange translation	(9,627)	(12,141)
Equity component recognized in reserves	-	(85,302)
Derivative component recognized in liability	(758,516)	-
Transaction costs	(298,865)	-
	<b>\$ 2,627,546</b>	<b>\$ 756,275</b>
Convertible loans	\$ 2,627,546	\$ 549,459
Receivable factoring facilities	-	206,816
	<b>\$ 2,627,546</b>	<b>\$ 756,275</b>

The Company issued the following convertible loans as at March 31, 2022:

On January 10, 2022, the Company secured bridge financing in the amount of \$3,000,000 with a face value of \$3,157,000. This loan is secured by first priority lien of all assets, owned by, and hereafter acquired by the Company, guarantee of the Company, and guarantee of each direct and indirect subsidiaries. The note bear interest at 12% per annum, payable in cash monthly, and are due to mature two years from issuance date and is convertible to common shares of the Company. Conversion Price equal to the lesser of (i) 80% of the public offering price in an Uplist Offering or (ii) 95% of the VWAP for the five day period ending immediately prior to the date of conversion.

As the conversion feature may be settled in a variable number of common shares of the Company, it does not meet the fixed for fixed criteria and has been accounted for as a derivative liability. The Company paid cash issuance costs of \$400,000, of which \$298,865 has been allocated to the convertible debenture principal and \$101,135 has been allocated to the derivative liability and included as interest and finance charges in the statement of loss and comprehensive loss

**TraceSafe Inc.**

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**15. LOANS PAYABLE** (continued)

In addition, there were 2,614,983 warrant units issued eligible to purchase 2,614,983 of common shares. The exercise price is 120% of the offering price in any public offering of common shares in the US in connection with the listing of the common shares on a national securities exchange in the US ("Uplist Offering"), provided if the Uplist Offering does not occur within 12 months of the Initial Exercise Date, exercise price will be equal to 115% of the VWAP for the 5 day period ending prior to date of exercise subject to any minimum price required by CSE rules & policies

The following table is a continuity of the Company's derivative liabilities:

	<b>March 31, 2022</b>
<b>Balance, beginning</b>	-
Issuance of convertible debt	758,516
Change in fair value of derivative liabilities	(342,263)
<b>Balance, ending</b>	<b>416,253</b>

The valuation model used to estimate the fair value of the derivative liabilities was the Black-Scholes model with the following assumptions:

	<b>March 31, 2022</b>	<b>Issuance, on January 10, 2022</b>
Expected life (years)	2	2
Risk-free interest rate	2.31%	1.26%
Expected annualized volatility	136%	172%
Dividend yield	0%	0%
Stock price at grant date	CAD\$0.30	CAD\$0.47
Exercise price	CAD\$0.27	CAD\$0.454
Grant date fair value	\$0.20	\$0.36

## TraceSafe Inc.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2022 *(Expressed in US Dollars, unless otherwise stated - Unaudited)*

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#### 15. LOANS PAYABLE (continued)

The Company issued the following convertible loans as at December 31, 2021:

On June 9, 2021 the Company issued a convertible note for a principal amount of up to \$1,000,000 CAD, of which \$322,192 (\$400,000 CAD) have been received as at December 31, 2021. Of that amount, \$44,094 (CAD \$55,970) has been recorded for the convertible equity portion. This loan is unsecured, interest at 10.5% per annum, and is due to mature one year from the respective date of issuance and at the option of the holder, are convertible into one "TSF Unit" at CAD \$0.65 per unit. A "TSF Unit" comprises of one common share and one common share purchase warrant, with an exercise price of CAD \$1.00 with a two-year term.

On, June 28, 2021, the Company issued a convertible note in the amount of \$26,681 (CAD \$33,600). Of that amount, \$3,881 (CAD \$4,888) has been recorded for the convertible equity portion. This loan is unsecured, interest at 10.5% per annum, and is due to mature one year from the respective date of issuance and at the option of the holder, are convertible into one "TSF Unit" at CAD \$0.65 per unit. A "TSF Unit" comprises of one common share and one common share purchase warrant, with an exercise price of CAD \$1.25 with a two-year term.

On October 15, 2021, the Company issued a convertible note in the amount of \$247,273 (CAD \$306,000). Of that amount, \$37,327 (CAD \$46,336) has been recorded for the convertible equity portion. This loan is unsecured, interest at 10.5% per annum, are due to mature one year from their respective date of issuance and at the option of the holder, are convertible into one "TSF Unit" at CAD \$0.65 per unit. A "TSF Unit" comprises of one common share and one common share purchase warrant, with an exercise price of CAD \$1.25 with a two-year term.

#### *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.

On June 29, 2021, the Company entered into an amendment of the working capital facility to increase the factoring facility by \$1,500,000, totaling \$3,000,000. Discount fees remain at 2.79%.

As of December 31, 2021, the Company has paid \$1,882,907 gross proceeds in this receivable factoring facility, net with transaction costs and accrued interest of \$474,031.

As of March 31, 2022, the Company has paid \$253,039 gross proceeds in this receivable factoring facility, net with transaction costs and accrued interest of \$nil.

## **TraceSafe Inc.**

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2022 *(Expressed in US Dollars, unless otherwise stated - Unaudited)*

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#### **16. 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*

##### *Period ended March 31, 2022*

During the period ended March 31, 2022, 350,000 common shares were issued as the payment for consulting fees with a fair value of \$78,229.

##### *Year ended December 31, 2021*

On March 19, 2021, the Company issued 3,000,000 shares to Wisilica, a non-voting majority shareholder as per agreement dated April 22, 2020, converting 3,000,000 Class B non-voting common shares of TraceSafe Tech (a subsidiary) at total value of \$1,260,034.

On June 16, 2021, the Company issued 1,400,000 shares to Wisilica, a non-voting majority shareholder as per agreement dated April 22, 2020, converting 1,400,000 Class B non-voting common shares of TraceSafe Tech at total value \$588,015. Wisilica has 116,395 Class B common shares of TraceSafe Tech remaining.

During the year ended December 31, 2021, 1,300,170 common share were issued as a result of the exercise of warrants, for gross proceeds of \$511,433.

During the year ended December 31, 2021, 455,000 common share were issued as a result of the exercise of options, for gross proceeds of \$94,127.

During the year ended December 31, 2021, 1,240,301 common shares were issued as the payment for consulting fees with a fair value of \$566,638, of which expenses, \$156,901 is recorded as prepaid expenses.



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**16. 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.

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

	Number	Weighted average exercise price	
Outstanding, December 31, 2020	2,350,000	CAD\$	0.33
Exercised	(455,000)	CAD\$	0.26
Granted	6,076,500	CAD\$	0.60
Outstanding, December 31, 2021	7,971,500	CAD\$	0.54
Exercised	-	-	-
Granted	350,000	CAD\$	0.60
Outstanding, March 31, 2022	8,321,000	CAD\$	0.54

As at March 31, 2022, the following options were outstanding:

Number of options		Expiry date	Exercise price	Weighted remaining contractual life (years)
<i>Outstanding</i>	<i>Exercisable</i>			
1,120,000	1,120,000	October 15, 2023	CAD\$ 0.20	1.54
500,000	500,000	September 15, 2025	CAD\$ 0.62	3.47
200,000	200,000	November 29, 2025	CAD\$ 0.40	3.67
75,000	41,667	December 6, 2026	CAD\$ 0.52	4.69
100,000	66,667	January 14, 2026	CAD\$ 0.60	3.79
500,000	375,000	July 19, 2026	CAD\$ 0.60	4.30
4,354,500	-	December 16, 2026	CAD\$ 0.60	4.72
1,122,000	-	December 16, 2026	CAD\$ 0.60	4.72
350,000	-	March 24, 2024	CAD\$ 0.60	1.93
7,971,500	2,303,334			

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**16. SHARE CAPITAL** (continued)**Warrants**

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

	Number		Weighted average exercise price
Outstanding, December 31, 2019	-	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
Exercised	(1,300,170)	CAD\$	0.50
Outstanding, December 31, 2021	3,593,777	CAD\$	0.54
Issued	2,614,983	CAD\$	0.27
Outstanding, March 31, 2022	6,208,760		0.54

As at March 31, 2022, the following warrants were outstanding:

Number of warrants	Expiry date	Exercise price	Weighted remaining contractual life (years)
1,138,501	April 6, 2022	CAD\$ 0.50	0.02
175,001	April 29, 2022	CAD\$ 0.50	0.08
2,064,425	August 7, 2022	CAD\$ 1.50	0.34
215,850	August 7, 2022	CAD\$ 1.00	0.34
2,614,983	January 10, 2024	CAD\$ 0.27	1.78
6,208,760			

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**16. SHARE CAPITAL** (continued)**Reserves***Option reserves*

The option reserves record 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.

	<b>Amounts</b>
Outstanding, December 31, 2020	\$ 1,665,322
Forfeited	(1,218,132)
Exercised	(72,600)
Stock-based compensation	328,052
Outstanding, December 31, 2021	\$ 702,641
Stock-based compensation	540,916
March 31, 2022	\$ 1,243,557

During the period March 31, 2022, the weighted average price of the options exercised is \$0.60 (December 31, 2021 – \$0.60).

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its options granted during the period ended March 31, 2022 and December 31, 2021. The fair value of each option granted was calculated using the following assumptions:

*December 31, 2021*

Expected life (years)	5
Risk-free interest rate	0.42%-1.25%
Expected annualized volatility	154% - 157%
Dividend yield	0%
Stock price at grant date	CAD\$0.49 – CAD\$0.73
Exercise price	CAD\$0.60
Grant date fair value	\$0.42 - \$0.68

**TraceSafe Inc.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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*(Expressed in US Dollars, unless otherwise stated - Unaudited)***16. SHARE CAPITAL** (continued)*Reserves (continued)**Option reserve (continue)**March 31, 2022*

Expected life (years)	2
Risk-free interest rate	1.46%
Expected annualized volatility	156%
Dividend yield	0%
Stock price at grant date	CAD\$029
Exercise price	CAD\$0.60
Grant date fair value	\$0.18

*Warrants reserves*

The warrant reserves record 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.

Management noted that in the prior year agent warrant transaction, the share price used upon exercise was the current date share price (\$0.73) and not the share price at grant date (\$1.15) resulting in an adjustment of \$22,619 to the warrant reserve.

	<b>Amounts</b>
Outstanding, December 31, 2019	\$ -
Agent warrant issued	110,178
Warrant issued	10,579
Exercised	(33,198)
Outstanding, December 31, 2020	\$ 87,559
Agent warrant adjustment	22,619
Outstanding, December 31, 2021	\$ 110,178
Warrant issued	-
Outstanding March 31, 2022	\$ 110,178

## TraceSafe Inc.

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### 16. SHARE CAPITAL (continued)

#### *Warrants reserve (continue)*

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its warrants granted during the period ended March 31, 2022. The fair value of each Agent Warrants issued was calculated using the following assumptions:

Expected life (years)	2
Risk-free interest rate	1.26%
Expected annualized volatility	172%
Dividend yield	0%
Stock price at grant date	CAD\$0.47
Exercise price	CAD\$0.45
Grant date fair value	\$0.36

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#### *Convertible debt reserves*

The convertible debt reserves record the fair value of convertible feature of the convertible debt issued until such time that they are exercised, at which time the corresponding amount will be transferred to share capital. The Company applies the residual method in accounting for the convertible feature for its convertible debt issued during the year ended December 31, 2021.

	<b>Amounts</b>	
Equity component of convertible debt (note 16)	\$	85,302
Outstanding, December 31, 2021 and March 31, 2022	\$	85,302

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### 17. 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 periods ended March 31, 2022 and 2021 was as follows:

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	<b>March 31, 2022</b>		March 31, 2021	
Management fees	\$	177,318	\$	192,012
Professional fees		32,415		22,873
Stock-based compensation		270,920		2,113,343
	\$	480,653	\$	2,328,228

*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 include the following:

	<b>March 31, 2022</b>		March 31, 2021	
Inventory purchases, included in costs of revenue	\$	29,200	\$	348,209
Research and development		430,520		430,814
Finance costs		-		-
Other administration cost, included general and administration		89,382		192,297
	\$	549,102	\$	971,320

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

*Related party balances*

As the March 31, 2022, there was \$nil outstanding to WiSilica included in accounts payable and accrued liabilities.

As at March 31, 2022, there was a balance of \$1,990 in director fees accrued as payable to independent directors of the Company.

As the December 31, 2021, there was \$353,510 outstanding to WiSilica included in accounts payable and accrued liabilities.

As at December 31, 2021, there was a balance of \$1,990 in director fees accrued as payable to independent directors of the Company.

## **TraceSafe Inc.**

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2022 (Expressed in US Dollars, unless otherwise stated - Unaudited)

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#### **18. 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.

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 March 31, 2022 and 2021 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, 2021 and 2020. The fair value was measured using level 2 input for both December 31, 2021 and 2020.

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

## **TraceSafe Inc.**

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2022 *(Expressed in US Dollars, unless otherwise stated - Unaudited)*

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#### **18. FINANCIAL RISK AND CAPITAL MANAGEMENT** (continued)

##### **Financial risk** (continued)

###### *Credit Risk (continued)*

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.

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.



## TraceSafe Inc.

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### 19. 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

### 20. 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 period ended March 31, 2022 and March 31, 2021 are listed below:

	March 31, 2022		March 31, 2021	
Tracking devices	\$	417,056	\$	801,743
Gateway		17,112		38,492
System support		822,816		446,940
	\$	1,256,984	\$	1,287,175

#### *Cost of revenue*

The costs of revenue incurred during the period ended March 31, 2022 and March 31, 2021 were comprised of the following:

	March 31, 2022		March 31, 2021	
Product cost	\$	203,781	\$	960,824
Labour cost		-		24,997
Other costs		197,095		154,103
	\$	400,876	\$	1,139,924

**TraceSafe Inc.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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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.

Information related to each reportable segment for the year ended March 31, 2022 and 2021 is set out below:

March 31, 2022

	TraceSafe technology	Investment	Total
Revenue	\$ 1,256,984	\$ -	\$ 1,256,984
Cost of revenue	(400,876)	-	(400,876)
Net loss	(1,779,988)	-	(1,779,988)
Other comprehensive loss	\$ (7,956)	\$ -	\$ (7,956)

March 31, 2021

	TraceSafe technology	Investment	Total
Revenue	\$ 1,287,175	\$ -	\$ 1,287,175
Cost of revenue	(1,139,924)	-	(1,139,924)
Net loss	(4,017,808)	-	(4,017,808)
Other comprehensive income	\$ -	\$ -	\$ -

**TraceSafe Inc.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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The Company's financial information by geography is as follows:

March 31, 2022:

	Revenue		Non-current assets	
Singapore	\$	184,689	\$	55,437
United States		797,149		-
Cayman Island		13,500		-
Canada		36,757		-
British Virgin Island and other		224,889		2,202,449
Total	\$	1,256,984	\$	2,266,743

March 31, 2021:

	Revenue		Non-current assets	
Singapore	\$	502,754	\$	27,840
Hong Kong		-		-
United States		247,008		4,616,688
Cayman Island		1,280		-
Canada		-		-
British Virgin Island and other		536,133		3,102,704
Total	\$	1,287,175	\$	7,719,392

## TraceSafe Inc.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2022 (Expressed in US Dollars, unless otherwise stated - Unaudited)

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#### 22. COMMITMENT

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

Fiscal Year	Amount
2022	\$ 29,111

#### 23. SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes the supplemental cash flow information for the periods ended March 31, 2022 and 2021

	March 31, 2022	March 31, 2021
Interest accrued on debts	\$ 125,841	\$ 129,558
Interest accrued on lease liability	\$ 151	\$ -
Cash interest paid	\$ 46,323	\$ -

#### 24. GOVERNMENT ASSISTANCE

During the period ended, March 31, 2022, the Company have received various job-related incentives of \$52,972 (SGD 71,640) (2021 - \$11,891).

The government assistance is recognized when received and is recorded in other income.

#### 25. SUBSEQUENT EVENT

Subsequent to March 31, 2022, Wisilica provided notice to exchange 12,974,305 Class B non-voting common shares of TraceSafe Tech for 12,974,305 Class A non-voting common shares of the Company (note 4). Wisilica's non-controlling interest will be reduced to zero.