

TRU • TRACETM

Technologies

Management Discussion & Analysis

For the three months ended July 31, 2019

TruTrace Technologies Inc. (formerly BLOCKStrain Technology Corp.)

The discussion and analysis of the financial condition and results of operations of the Corporation is prepared as at September 23, 2019 and should be read in conjunction with the unaudited condensed consolidated interim financial statements of TruTrace Technologies Inc., and the notes thereto, for the three months ended July 31, 2019, and with the audited consolidated financial statements of TruTrace Technologies Inc. and the notes thereto, for the year ended April 30, 2019.

All financial information is presented in Canadian dollars, except where otherwise indicated.

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis (MD&A) of the financial condition and results of operations is intended to help the reader understand the current and prospective financial position and operating results of TruTrace Technologies Inc. (formerly BLOCKStrain Technology Corp.) (the “Company” or “TruTrace”). The MD&A discusses the operating and financial results for the three months ended July 31, 2019. The MD&A is dated September 23, 2019 and takes into consideration information available up to that date.

The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes for the three months ended July 31, 2019, and the annual consolidated financial statements for the year ended April 30, 2019, prepared in accordance with International Financial Reporting Standards (IFRS). The audited consolidated financial statements have been prepared on the “going concern” basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. All amounts are denominated in Canadian dollars (CDN\$) unless otherwise identified.

Additional information is available on TruTrace’s website (trutrace.co) and all previous public filings, including the most recent filed Annual Information Form and Information Circular, are available through SEDAR (www.sedar.com).

FORWARD-LOOKING STATEMENTS

The MD&A contains certain forward-looking statements relating to the Company’s plans, strategies, objectives, expectations and intentions. The use of any of the words “expect”, “anticipate”, “continue”, “estimate”, “objective”, “ongoing”, “may”, “will”, “project”, “should”, “believe”, “plans”, “intends”, “confident”, “might” and similar expressions are intended to identify forward-looking information or statements. Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking statements throughout this MD&A. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Forward-looking statements are based on current expectations, estimates, and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward-looking statements. Such information and statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A may contain forward-looking information and statements pertaining to the fluctuations in the demand for the Company’s services; the ability for the Company to attract and retain qualified personnel; the existence of competitors; technological changes and developments; assumptions regarding foreign currency exchange rates and interest rates; the existence of regulatory and legislative uncertainties; the possibility of changes in tax laws and general economic conditions including the capital and credit markets; assumptions made about future performance and operations. The Company cautions that the foregoing list of assumptions, risks, and uncertainties is not exhaustive. The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A and the Company assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

NON-IFRS FINANCIAL MEASURES

Throughout this document, reference is made to “working capital”, and “adjusted EBITDA”, which are all non-IFRS measures. Management believes that working capital, defined as current assets less current liabilities, is an indicator of the Company’s liquidity and its ability to meet its current obligations. Management believes that Adjusted EBITDA, which normalize earnings to exclude certain amounts, is a useful measure for comparing results from one period to another. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance with International Financial Reporting Standards (“IFRS”).

MARKET PROFILE AND INFORMATION

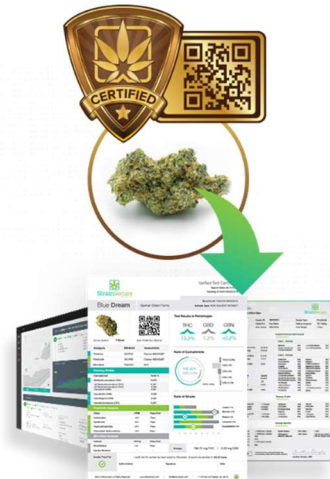
TruTrace Technologies Inc., headquartered in Calgary, AB, Canada, is a full-service software company that has developed the first integrated blockchain platform that registers and tracks cannabis intellectual property (“IP”) from genome to sale. It is proprietary, immutable, and cryptographically secure, thereby establishing, in a single source, an accurate, validated, and permanent account for cannabis strains from ownership to market.

With widening legalization of cannabis in Canada and around the world, new challenges and opportunities emerge in order to provide a safe and legal inventory for products that, until recently, were largely available only on the black market. As these products are grown, processed and brought to the shelves, Canada and the global jurisdictions will heavily regulate cannabis and apply new standards and requirements in terms of product testing, quality assurance, tracking and safety.

TruTrace specifically addresses the cannabis industry’s unique challenges, including:

- **Mandatory Testing:** TruTrace’s platform and lab-testing partners provide an efficient and streamlined process for mandatory testing, including cutting the administrative burdens associated with contaminant/microbial, chemistry and pesticide testing in order to help get products safely to market faster;
- **DNA Based Product Validation and Actionable Quality Assurance:** The underlying blockchain technology creates a genetic registry and corresponding genetic fingerprint for electronic product identification, validation, and quality assurance to enable any participant on the platform, including regulators, producers, participants on the entire supply chain (if desired or required), patients and consumers, to view and track the product from Genome to Sale™; and
- **Intellectual Property:** Third, the TruTrace platform protects the intellectual property of growers and breeders. There is currently no legal framework for the issuance of patent protection of unique cannabis strains in either Canada or the United States. However, some form of intellectual property protection is important for the industry’s growth as products evolve and develop. TruTrace aims to help provide this protection. For example, if a craft grower creates a popular strain with unique characteristics, the platform will enable intellectual property protection through simple registration of the strain’s genome within StrainTecure™, thereby locking that data into an immutable decentralized ledger. The resulting permanent record will be readily accessible in the event of future disputes, thus bringing a level of trust to the industry and ensuring associated fees are paid to all applicable parties in the market.

TruTrace’s leadership team combines decades of extensive experience across multiple industries, with specific expertise across corporate management, business development, advertising, information technology, including custom enterprise-based software, supply chain, legal and finance. The team’s extensive combined experience, specific expertise in the blockchain sector and its development of the most comprehensive, secure and community-driven cannabis genetics archival platform positions TruTrace for growing opportunities in the multibillion dollar cannabis market and at the forefront to provide the growing needs of the industry.



CORPORATE PROFILE

Organization

TruTrace Technologies Inc. (formerly “BLOCKStrain Technology Corp.”) (the “Company” or “TruTrace”) was incorporated under the British Columbia Business Corporations Act on October 19, 2011 and is listed on the TSX Venture Exchange “TSXV”, under the trading symbol “TTT”. The head office and the records and registered office is located at L120, 2303 – 4th St SW, Calgary, AB, T2S 2S7.

TruTrace Technologies Inc. is a full-service software company that has developed the first integrated blockchain platform that registers and tracks cannabis intellectual property (“IP”) from genome to sale. It is proprietary, immutable, and cryptographically secure, thereby establishing, in a single source, accurate, validated, and permanent accounts for cannabis strains from ownership to market.

On May 17, 2018, the Company completed its Qualifying Transaction (“the Transaction”) (Note 4), pursuant to which it acquired all of the issued and outstanding shares of BLOCKStrain Technology Group Inc. (“PrivCo”), a private company incorporated on November 22, 2017, under the laws of British Columbia.

The Company changed its name from “BLOCKStrain Technology Corp.” to “TruTrace Technologies Inc.” on April 26, 2019.

Further details of this transaction are described in note 4 of the unaudited condensed consolidated interim financial statements and related notes for the three months ended July 31, 2019 and the Reverse Takeover section of this MD&A.

Operations

TruTrace has developed the first integrated blockchain platform that registers and tracks intellectual property and mandatory testing data for the cannabis industry, which is dedicated to making it safe and conformable for breeders and growers, large and small, to protect and release their genetics, strain varieties, and validated testing results into the public domain. TruTrace verification technology tracks the product at every testing point, from Genome to Sale™, so customers can make much more informed decisions about the products they choose, medical practitioners and patients can rely on standardized and verified medicine and suppliers can implement actionable quality assurance. The TruTrace registry and verification system gives producers, regulators, patients and customers everything they need to know, helping support safe and informed choices about all of the cannabis products placed into the supply chain.

TruTrace combines traditional cannabis culture with modern blockchain-technology. By being open and available to everyone, the platform is expected to help shape the future adoption and authenticity of the cannabis industry. Through use of a secure API network, TruTrace will make it easy for testing providers, grow facilities, app and software developers, medical practitioners, pharmacies, research groups, and major supply chain platforms to build applications and solutions, thereby helping fuel technology and innovation for the cannabis industry as a whole.

With compliance and regulation being a critical priority for industry participants, TruTrace is also focused on ensuring that applicable regulatory standards are adhered to, while providing real-time visibility of industry operations directly to, and collaboration with, agencies assigned to enforce and regulate cannabis activity nationwide. TruTrace uses powerful supply chain and IoT (“Internet of Things”) technology to allow for the tracking of cannabis movement from genetics to sale, while providing for the scalability of what is expected to become a globally traded product.

On May 16, 2019, TruTrace announced a working relationship with Nonnie’s Nectar, LLC, a Los Angeles based hemp extract company that produces premium full-spectrum hemp-based products grown in the U.S.A. using organic farming practices, whereby Nonnie’s Nectar will begin employing the StrainSecure™ platform to collect, register, manage, track and publish verified testing data of several of their products in market.

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On June 4, 2019, senior management of TruTrace took part in a formal presentation before an international audience at the 2019 Deloitte Greenhouse™ Cannabis Summit in Toronto to discuss innovations and initiatives which are designed to bring greater transparency and collaboration to the cannabis industry. The invitation-only event took place following the release of Deloitte's third annual report on the impact of cannabis legalization on the Canadian economy: *Nurturing new growth: Canada gets ready for Cannabis 2*.

On June 14, 2019, TruTrace began trading on the Canadian Securities Exchange ("CSE") under the symbol "TTT." Effective at the close of business on Thursday, June 13, 2019, the common shares were delisted from TSX Venture Exchange at the request of the Company. The listing on the CSE is expected to provide TruTrace with increased visibility with prospective global investors, improved liquidity and a more diversified shareholder base.

On June 17, 2019, Shoppers Drug Mart ("Shoppers") announced at the second annual World Cannabis Congress, a new Pilot Program ("Pilot") built on TruTrace's proprietary StrainSecure™ platform, which focuses on testing and verification to confirm the origin, authenticity and quality assurance of cannabis products. We're delighted to announce that Phase 1 is now complete. TruTrace's software is being used as a central hub for identity management, asset tracking, validation, and product authentication for Shoppers medical cannabis products. Shoppers has also announced the commissioning of TruTrace and Deloitte to execute Phase 2 of the pilot, with full production and implementation of TruTrace's StrainSecure™ platform, slated to begin in November 2019. This Pilot is aimed at not only providing detailed inventory data to Shoppers as a part of their Medical Cannabis initiative, but also to bring a detailed level of transparency and trust to medical practitioners throughout Canada. Management believes that this implementation of StrainSecure™ will have a significant financial impact on the company as the platform will serve as a fundamental layer in the distribution of medical cannabis. Although the estimated size of the medical cannabis market is significant, management believes there is an even greater opportunity to grow the market, due to the small number of medical practitioners who actively prescribe cannabis without product validation.

"There is a clear consensus within the cannabis industry that the source and quality of medical cannabis must be transparent and identifiable in order to meet the expectations of patients and health care practitioners," said Ken Weisbrod, Vice President of Business Development, Shoppers Drug Mart.

On June 25, 2019, TruTrace and Shivom Ventures Limited ("Shivom"), a biotechnology data and analysis company optimising the way DNA is shared, secured and analysed through blockchain and AI technology, announced that the two companies entered into a letter of intent ("LOI") to establish a strategic working relationship. The partnership is aimed at utilizing both Shivom and TruTrace's blockchain solutions in order to substantially enhance the global medicinal and recreational cannabis markets.

On June 27, 2019, TruTrace announced an agreement with Zenabis Global Inc. (TSX:ZENA) who agreed to employ the StrainSecure™ platform to collect, register, manage, track and publish verified testing data of its cannabis plant DNA and strains. Zenabis is a significant Canadian licensed cannabis cultivator of medical and recreational cannabis, and a propagator and cultivator of floral and vegetable products. Zenabis employs staff coast-to-coast, across facilities in Atholville, New Brunswick; Delta, Aldergrove, Pitt Meadows and Langley, British Columbia; and Stellarton, Nova Scotia. In addition to gaining technologically advanced knowledge of plant propagation, the recent addition of state-of-the-art greenhouses in Langley, Pitt Meadows and Aldergrove provides Zenabis with 3.5 million square feet of facility space that can, upon full conversion, be dedicated to cannabis production. If all facility space at Zenabis Atholville, Zenabis Stellarton, Zenabis Delta and Zenabis Langley is fully converted and dedicated to production, Zenabis will own, and have access to 660,000 square feet of high quality indoor cannabis production space, as well as 2.1 million square feet of greenhouse cannabis production space at its Langley facility, with this production strategically positioned on Canada's coasts. Zenabis expects these facilities to have an annual design capacity of 131,300 kg of dried cannabis by the third quarter of 2019. These facilities, if fully built out and converted for cannabis production, would have an annual design capacity to yield approximately 479,300 kg of dried cannabis annually, for both national and international market distribution. An additional 700,000 square feet of greenhouse space will be used to continue the existing propagation business and produce industrial hemp and can be converted to cannabis production at such a time that is beneficial to the strategic position of the Company. The Zenabis brand name is used in the cannabis medical market, while the Namaste and Blazery brand names are used in the cannabis adult-use recreational market, and the True Büch brand name is used for Zenabis' kombucha products.

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Management believes the utilization of StrainSecure™ in the validation and distribution of medical and recreational cannabis by Zenabis would have a positive financial impact on TruTrace.

On July 9, 2019, TruTrace announced that A&L Canada Laboratories Inc. would serve as one of the inaugural testing facilities in the Shoppers and TruTrace medical cannabis verification Pilot. A&L is an innovative, research driven technology company focused on sustainable development. For Food & Pharma, A&L provides analytical services for plant tissue, water, media and finished product. A&L's services for cannabis and hemp also include disease diagnostics, genetic analysis, production recommendations, Plant Monitoring Program and Health Canada required testing. The company operates two world class analytical Laboratories serving clients throughout Canada, the U.S., and Internationally.

On July 30, 2019, TruTrace announced that its common shares have commenced trading on the OTCQB® Venture Market, under the symbol TTTSF. The Company believes that trading on the OTCQB, along with the DTC eligibility it secured earlier this year, provides additional liquidity and exposure amongst U.S. investors.

On July 31, 2019, TruTrace and The Flowr Corporation (TSX.V: FLWR; OTC: FLWPF) jointly announced that Flowr joined the Shoppers medical cannabis verification Pilot. "Our medical cannabis products in Canada are available through Shoppers as we believe the pharmacy model offers significant benefits to patients. We fully support the objectives of this pilot program and look forward to working with our partners to ensure patients have access to medicinal cannabis they can trust," said Dr. Lyle Oberg, Flowr's Chief Medical and Policy Officer. "Medical cannabis patients expect that their medication is safe, standardized and of high quality, and we believe this formal traceability program can play an important part of the overall process of building that trust." Flowr has a supply agreement with Shoppers to supply its FlowrRx brand of medical cannabis products.

FINANCIAL AND OPERATION HIGHLIGHTS

For the three months ended July 31,	2019		2018
Revenue	\$	48,000	\$ -
Adjusted EBITDA ⁽¹⁾		(1,372,942)	(4,183,251)
EBITDA ⁽¹⁾		(1,740,474)	(9,000,832)
Net loss		(1,740,934)	(8,998,361)
Comprehensive loss	\$	(1,740,934)	\$ (8,998,361)

Revenue

- The Company's proprietary software was built to enable TruTrace to serve as a full-service software provider with the first integrated blockchain platform that registers and tracks cannabis intellectual property ("IP") from genome to sale. The genomic based registry is proprietary, immutable, and cryptographically secure, thereby establishing, in a single source, accurate, validated, and permanent account for cannabis strains from ownership to market.
- The Company began generating revenue in the later part of the year ended April 30, 2019.

Earnings and net earnings ⁽¹⁾

The Company's loss was \$1,740,934 for the three months ended July 31, 2019, compared to \$8,998,361 for the three months ended July 31, 2018. The three months ended July 31, 2018 includes \$2,321,019 of listing charges related to the reverse takeover.

For the three months ended July 31, 2019, adjusted EBITDA was a negative \$1,740,934 and operating expenses were \$5,000 compared to the prior period's negative \$4,183,251 and \$Nil, respectively. The three months ended July 31, 2018 was impacted by high startup costs.

⁽¹⁾ See Non-GAAP measures and additional GAAP measures

REVERSE TAKEOVER

On May 17, 2018, the Company completed its Qualifying Transaction whereby each outstanding share of PrivCo was exchanged, on a one for one basis, for the issued and outstanding common shares of the Company, with PrivCo becoming a wholly-owned subsidiary of the Company.

The Transaction constituted a reverse takeover of the Company by the shareholders of PrivCo but did not meet the definition of a business combination as defined under IFRS 3. As such, the Transaction is accounted under IFRS 2, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense. Since PrivCo is deemed to be the accounting acquirer for accounting purposes, these financial statements present the historical financial information of PrivCo up to the date of the Transaction.

Fair value of shares issued (6,854,382 @ \$0.30)	\$ 2,056,315
Fair value of net liabilities	
Prepaid deposits	32,750
Bank indebtedness	(21,270)
Accounts payable	(276,184)
	<u>(264,704)</u>
Listing expense	<u>\$ 2,321,019</u>

OUTLOOK AND GUIDANCE

This Outlook and Guidance contains forward-looking statements that the Company does not intend, and does not assume any obligation, to update, except as required by law. The forward-looking information and statements include:

- The current economic climate and its effect on the Company's client base business;
- The Company's ability to successfully acquire new customers;
- The Company's ability to successfully implement its technology; and
- Management's assumptions regarding the sustainability of recurring revenue streams and the Company's expected profitability.

With the launch of their platform, TruTrace offers an easily integrated blockchain solution that tracks cannabis from Genome to Sale™ through the supply chain and provides actionable quality assurance and real-time testing data to the cannabis industry.

The Company's technology solution will play a key role in the cannabis industry, servicing both licensed producers and micro cultivators alike. This will be done through the continued development the Company's technology, as well as through strategic partnerships with key players in the marketplace and how they will work with TruTrace moving forward.

TruTrace has developed a comprehensive verification system for required tests including: contaminant/microbial, chemistry and pesticide, and genetics tests for product verification, as well as a supply chain management platform that ensures transparency and quality assurance between all stakeholders. We want to empower producers, medical practitioners, regulators and consumers with information regarding what truly is in the cannabis products in the market.

The Company has been able to mirror its technology on the front end from an automation point of view, embedding it within laboratories that are conducting contaminant/microbial, chemistry, pesticide and genetic testing. As such, we have essentially digitized all aspects of the testing process, a crucial point for the integrity of the cannabis industry.

TruTrace's goal is to build a framework for licensed producers ("LPs") as well as micro cultivators that are entering the newly legalized ecosystem, helping them to easily and inexpensively move their products through testing procedures. We then place that testing data on the blockchain for immutability and intellectual property protection and feed that information through the ecosystem for full visibility into the supply chain. The resulting outcome is a trustworthy source of product and inventory

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data that can be used to support anything from clinical trials to medical efficacy studies, as well as providing regulators, medical practitioners, patients and even retail consumers a much-desired level of actionable intelligence. With TruTrace, all parties can see whether a product is clean, safe, pesticide-free and truly is what it claims to be.

RESULTS OF OPERATIONS

The software built by TruTrace has enabled our full-service software company to launch StrainSecure™, the first integrated blockchain platform that registers and tracks cannabis intellectual property (“IP”) from genome to sale. It is proprietary, immutable and cryptographically secure, thereby establishing, in a single source, accurate, validated, and permanent account for cannabis strains from ownership to market.

On October 24, 2018, TruTrace announced the formal launch of its proprietary genome tracking software following the collection of WeedMD’s cannabis plant DNA. Testing began in November 2018.

With TruTrace’s platform, WeedMD is now able to provide consumers with an assurance of quality and can guarantee the provenance of its cannabis products. TruTrace also can create an immutable record for other cannabis breeders to protect the strains they develop.

WeedMD initially registered 40 strains out of hundreds developed in-house for Master Strain Certification in order to protect their genetic intellectual property. Products shipped from WeedMD will be verified by a TruTrace Certificate of Authenticity, guaranteeing that consumers are getting the strain they purchased. On January 15, 2019, TruTrace and WeedMD formally announced the completion of the 'first-of-its-kind' cannabis strain validation registration program.

On January 29, 2019, TruTrace began exploring application of its software in the rapidly evolving Hemp-Derived CBD space by announcing a letter of intent with California based NXT Water, to support the launch of AKESO Functional Fitness Water, thereby providing a new level of visibility and trust in the quality of CBD products being put into market. Specifically, through this relationship, consumers will be able to rapidly access AKESO’s core ingredients through an internet-enabled device by scanning the Quick Response (QR) code on the side of each bottle. All product data, including authenticated certificates of analysis, will be securely stored on the blockchain and dynamically available to customers in store. Management believes the growing need to validate the ingredients of hemp-derived CBD products in this emerging market, and the use of StrainSecure™ by NXT Water in the largest market in the U.S., will have a significant financial impact on the Company.

On February 14, 2019, TruTrace announced the inclusion of Canadian licenced producer Harvest One/United Greeneries, in the TruTrace Master Genome Strain and Clone Registration Program. By incorporating the StrainSecure™ platform into its sales program, Harvest One is expected to be able to confirm its medical cannabis strains are as labelled, providing its consumers with increased transparency and confidence about its products. Upon completion of the collection and registration of its strains, a select number of Harvest One products will carry the TruTrace Seal of Authenticity, guaranteeing their origin and providing quality assurance. Management believes the utilization of StrainSecure™ in the validation and distribution of medical and recreational cannabis by Harvest One would have a positive financial impact on TruTrace.

OPERATING EXPENSES

For the three months ended July 31,	2019		2018	
Corporate development costs	\$	262,410	\$	2,922,316
Depreciation		1,643		-
General and administrative costs		295,503		299,354
Operating costs		5,000		-
Product development costs		576,304		408,512
Salaries, subcontractors, and benefits		270,931		540,146
Stock-based compensation		367,532		2,496,562
Total operating expenses	\$	1,779,323	\$	6,666,890

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For the three months ended July 31, 2019, total operating expenses were \$1,779,323. For the three months ended July 31, 2018, total operating expenses were \$6,666,890 and consisted of high startup costs, specifically for corporate development.

Operating costs, which consist of materials, supplies, and lab testing costs for the Company's operations were \$5,000 for the three months ended July 31, 2019.

Depreciation was \$1,643 for the three months ended July 31, 2019. This expense is related to the property and equipment purchased by the Company for lab testing purposes and is a non-cash expense.

Stock-based compensation expense was \$367,532 for the three months ended July 31, 2019 compared to \$2,496,562 for the three months ended July 31, 2018. The variance is due to a large grant in the three months ended July 31, 2018 after the completion of the reverse takeover. This expense is driven by the timing of the vesting of stock options and is a non-cash expense.

The remaining operating expenses for the three months ended July 31, 2019 were \$262,410 for corporate development costs, \$295,503 for general and administrative costs, \$576,304 for product development costs, and \$270,931 for salaries, subcontractors, and benefits compared to \$2,922,316, \$299,354, \$408,512, and \$540,146 for the three months ended July 31, 2018, respectively.

PRODUCT DEVELOPMENT

On January 19, 2018, the Company entered into a master services agreement and a statement of work with Heated Details to develop the initial phases of the product development strategy necessary to launch the TruTrace platform. During the three months ended July 31, 2019, the Company paid \$576,304 to Heated Details to carry out this assignment.

FOREIGN EXCHANGE

For the three months ended July 31,	2019	2018
Foreign exchange loss	\$ (9,008)	\$ (12,656)

Foreign exchange gains and losses are the result of foreign currency fluctuations during the period and the timing of when items are settled. Foreign exchange gains and losses fluctuate quarterly in relation to changes in the US/Canadian and Euro/Canadian exchange rate.

NET EARNINGS, TOTAL COMPREHENSIVE LOSS AND CASH FLOWS

For the three months ended July 31,	2019	2018
Adjusted EBITDA ⁽¹⁾	\$ (1,372,942)	\$ (4,183,251)
EBITDA ⁽¹⁾	(1,740,474)	(9,000,832)
Comprehensive loss	(1,740,934)	(8,998,361)
Funds used in operations before working capital changes ⁽¹⁾	(1,371,759)	(4,183,251)
Funds used in operations	\$ (1,300,548)	\$ (4,607,445)

The Company's comprehensive loss was \$1,740,934 for the three months ended July 31, 2019. The three months ended July 31, 2018 includes \$2,321,019 of listing charges related to the reverse takeover. Compared to the three months ended July 31, 2018, the variance is due to having high startup costs in the prior period.

For the three months ended July 31, 2019, adjusted EBITDA was a negative \$1,372,942. Compared to the three months ended July 31, 2018, the variance is due to having high startup costs in the prior period.

⁽¹⁾ See Non-GAAP measures and additional GAAP measures

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The Company's funds used in operations were \$1,300,548 for the three months ended July 31, 2019, and mainly covered product development costs, general and administrative costs, salaries, subcontractors, and benefits, and corporate development costs. Compared to the three months ended July 31, 2018, the variance is due to having high startup costs in the prior period.

FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS

TruTrace was incorporated on November 22, 2017, and, as a result, operations did not start until the third quarter of 2018 for the Company. The Company did not have any activities prior to its date of incorporation and, therefore, does not have comparative figures prior to the third quarter of 2018.

	2020		2019	
	Q1		Q4	
Revenue	\$	48,000	\$	10,000
Adjusted EBITDA ⁽¹⁾		(1,372,942)		(1,864,327)
EBITDA ⁽¹⁾		(1,740,474)		(1,886,023)
Net loss		(1,740,934)		(1,881,971)
Comprehensive loss	\$	(1,740,934)	\$	(1,881,871)

	2019		2018	
	Q1		Q4	
Revenue	\$	-	\$	-
Adjusted EBITDA ⁽¹⁾		(4,167,857)		(223,429)
EBITDA ⁽¹⁾		(9,000,832)		(223,429)
Net loss		(8,998,361)		(223,429)
Comprehensive loss	\$	(8,998,361)	\$	(223,429)

LIQUIDITY AND CAPITAL RESOURCES
Working capital

"Working capital" is used by management and the investment community to analyze the operating liquidity available to the Company. Working capital is defined as current assets less current liabilities.

Working capital is derived from the consolidated statements of financial position and is calculated as follows:

As at	July 31, 2019		April 30, 2019		Increase (decrease) in Working capital	
Current Assets						
Cash and cash equivalents	\$	97,671	\$	1,163,219	\$	(1,065,548)
Accounts receivable		197,569		11,200		186,369
Other receivables		54,093		52,448		1,645
Prepaid and deposits		130,191		115,474		14,717
	\$	479,524	\$	1,342,341	\$	(862,817)
Current Liabilities						
Accounts payable and accrued liabilities	\$	781,721	\$	634,619	\$	147,102
Deferred revenue		126,840		-		126,840
	\$	908,561	\$	634,619	\$	273,942
Working capital ⁽¹⁾	\$	(429,037)	\$	707,722	\$	(1,136,759)

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The key driver of the change in working capital was the decrease in cash and cash equivalents of \$1,065,548 due to operating expense payments. The increase in accounts receivables of \$186,369 relates to the startup of revenue generation, including deferred revenue. The increase in prepaids and deposits relate to prepaid insurance. These are offset by the increase of \$273,942 in accounts payable and accrued liabilities and deferred revenue.

Liquidity

At July 31, 2019, the Company had \$97,671 (April 30, 2019: \$1,163,219) of cash on hand. The Company does not have any long-term debt, and, therefore, any liquidity risk relates to its accounts payable and accrued liabilities, as it may encounter difficulty discharging its obligations.

While the Company has been able to demonstrate the ability to raise capital to fund its operations to date, it has not yet been able to generate the sales volumes required to create positive cash flows from operations. Whether and when the Company will generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due subsequent to July 31, 2019 is uncertain.

The Company considers the items included in capital to include shareholders' equity. The Company manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, the financing environment and the risk characteristics of its underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, new debt, or scale back the size and nature of its operations. The Company is not subject to externally imposed capital requirements.

Management intends to regularly review its ongoing level of cash flow from operations, as well as its level of capital resources, and actively manage its affairs. This review will consider factors such as the current economic environment, changes in demand for the Company's services, capital spending requirements, foreign exchange rates, working capital needs, and profitability of the Company's operations, any of which could materially affect the Company's ability to meet its obligations.

Additional financing may be necessary in a variety of circumstances, including the requirement of working capital to ramp up operations required by strong growth, the occurrence of adverse circumstances, fluctuations in foreign currency translation, or the decision to expand geographically into new markets or by acquisition. It is anticipated that the required financing may be raised by bank debt, other forms of debt, or the issue of equity. It is possible that such financing will not be available, or not available on favorable terms.

SUBSEQUENT EVENTS

On August 14, 2019, TruTrace announced the completion of Phase 1 of Shoppers Pilot Program. The Pilot Program is specifically designed to increase transparency, interoperability and product identification within the medical cannabis industry. Shoppers has also engaged TruTrace and Deloitte Canada LLP ("Deloitte") to execute Phase 2 of the Pilot Program, with full production and implementation of TruTrace's StrainSecure platform targeted for late November 2019. "We have been encouraged by the response to this traceability initiative. There is a clear consensus within the cannabis industry that the source and quality of medical cannabis must be transparent and identifiable in order to meet the expectations of patients and health care practitioners," said Ken Weisbrod, Vice President of Business Development, Shoppers Drug Mart. "It is more important than ever to be able to assure all stakeholders, from regulators to health care practitioners, that the medical industry is taking the necessary steps to establish the infrastructure required to deliver standardized, consistent medication to our patients. Shoppers has turned to two trusted leaders, TruTrace and Deloitte Canada LLP, to assist us in the second phase of the project."

On August 20, 2019, TruTrace announced that it signed a letter of intent to establish a strategic working relationship with Anandia Laboratories Inc. ("Anandia"). Anandia is considered an industry leader in science, genetics, and independent cannabis product testing. Pursuant to the LOI, Anandia will serve as a primary analytical and genetic testing partner in the TruTrace ecosystem. The parties will also explore ways to work together on rapidly expediting and optimizing the testing processes under the Cannabis Act (Canada) as set forth by Health Canada, as well as evolving genetic testing practices in the

⁽¹⁾ See Non-GAAP measures and additional GAAP measures

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cannabis industry. Already the industry leader, Anandia is the largest dedicated cannabis testing lab in Canada. Headquartered among Vancouver's burgeoning tech community, Anandia's new state-of-the-art facility was custom-designed for cannabis testing. Between the company's Vancouver and Toronto labs, Anandia provides 19 different tests and services. These include the full suite of testing services required by Health Canada, plus other value-add tests such as full cannabinoid, terpene, and flavonoid profiling; genetic-based testing; predictive profiling; and genetics archiving services. While operating independently, Anandia is a wholly owned subsidiary of Aurora Cannabis Inc. (NYSE: ACB) (TSX: ACB) (Frankfurt: 21P; WKN: A1C4WM).

On August 22, 2019, the Company closed a first tranche (the "First Tranche") of the non-brokered private placement (the "Financing"). The First Tranche consisted of 2,040,000 units (each, a "Unit") of the Company at a price of \$0.25 per Unit for gross proceeds of \$510,000, which includes the advance of \$235,000 received on July 29, 2019. Each Unit consists of one common share and one non-transferable common share purchase warrant (each, a "Warrant"). Each Warrant entitles the holder to purchase one additional common share at a price of \$0.30 per common share for a period of three years from the closing of the Financing.

On August 28, 2019, TruTrace and Segra International Corp. ("Segra"), an agriculture technology company, announced that the two companies entered into a letter of intent ("LOI") to establish Segra as a primary genetics verification provider for TruTrace. Pursuant to the LOI, Segra will be a lead genetics partner in the Shoppers and TruTrace medical cannabis verification Pilot Program. Segra will extract DNA from cannabis samples processed at its Genotyping and Molecular Lab Services Division and will provide unique DNA fingerprint codes, allowing for objective confirmation that as-supplied lots of cannabis remain isogenically pure to original reference material.

On September 4, 2019, TruTrace and Deloitte announced a strategic alliance to deliver blockchain product traceability solutions to the cannabis industry. Deloitte has been a leading voice in cannabis intelligence and research and has advised and consulted clients at every level of the cannabis supply chain. Their annual Cannabis Report is a fundamental resource about the current and future state of the young industry. The alliance will improve clients' ability to build trusted brands, ensure medical and recreational distributors and retailers receive accurate shipments, and provide consumers with confidence they are buying verified products from credible sources. Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights and service to address clients' most complex business challenges.

On September 5, 2019, Aphria Inc. ("Aphria") (TSX: APHA and NYSE: APHA) and TruTrace announced that Aphria joined Phase 2 of the Shoppers medical cannabis verification Pilot Program. "We are thrilled to partner with Shoppers Drug Mart and TruTrace Technologies to increase transparency within the medical cannabis industry," said Irwin D. Simon. "At Aphria Inc., we take responsibility to heart and recognize the importance of standardized testing and quality assurance. This program reflects our ongoing commitment to protecting the health and safety of our patients." Aphria Inc. is a leading global cannabis company driven by an unrelenting commitment to our people, the planet, product quality and innovation. Headquartered in Leamington, Ontario – the greenhouse capital of Canada – Aphria Inc. has been a leader in low-cost production of high-quality cannabis at scale, grown in natural conditions. Focusing on untapped opportunities and backed by the latest technologies, Aphria Inc. is committed to bringing breakthrough innovation to the global cannabis market. The Company's portfolio of brands is grounded in expertly-researched consumer insights designed to meet the needs of every consumer segment. Aphria Inc. drives sustainable long-term shareholder value through a diversified approach to innovation, strategic partnerships and global expansion, with a presence in more than 10 countries across five continents. Management believes the utilization of StrainSecure™ in the validation and distribution of medical and recreational cannabis by Aphria would have a positive financial impact on TruTrace.

On September 11, 2019, TruTrace announced that Tilray Canada Ltd. ("Tilray Canada"), a subsidiary of Tilray, Inc. (NASDAQ:TLRY), a global pioneer in cannabis research, cultivation, production and distribution, joined the Shoppers medical cannabis verification Pilot. Tilray is a global pioneer in the research, cultivation, production and distribution of cannabis and cannabinoids currently serving tens of thousands of patients and consumers in 13 countries spanning five continents.

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Management believes the utilization of StrainSecure™ in the validation and distribution of medical and recreational cannabis by Tilray could have a positive financial impact on TruTrace.

On September 13, 2019, the Company closed a second tranche (the “Second Tranche”) of the Financing. The Second Tranche consisted of 840,950 units (each, a “Unit”) of the Company at a price of \$0.25 per Unit for gross proceeds of \$210,237.50. Each Unit consists of one common share and one non-transferable Warrant. Each Warrant entitles the holder to purchase one additional common share at a price of \$0.30 per common share for a period of three years from the closing of the Financing.

OUTSTANDING SHARE DATA

Authorized share capital includes the following as at September 23, 2019:

- 83,085,332 Common Shares issued and outstanding
- 14,900,000 Stock options
- 2,880,950 Share purchase warrants

SHAREHOLDERS’ EQUITY

Authorized share capital

Unlimited number of common shares and preferred shares without par value.

Common shares issued

On May 17, 2018 the Transaction was completed and the Company acquired, on a one for one basis, all issued and outstanding shares of PrivCo in exchange for 38,350,000 common shares of the Company.

On May 17, 2018, concurrent with the Transaction, the Company issued 35,000,000 common shares for gross proceeds of \$10,500,000. The Company incurred \$342,999 in share issuance costs.

The contributed surplus reserve included in the Shareholders’ Equity section of the Statement of Financial Position comprises all unexercised stock options.

	Number of Common Shares	Share Capital
Balance at April 30, 2018	38,350,000	\$ 575,250
Shares issued for acquisition of the Company	6,854,382	2,056,315
Shares issued on private placement	35,000,000	10,500,000
Share issue costs	-	(342,999)
Cancellation of subscription receivable	-	(4,500)
Balance at April 30, 2019	80,204,382	12,784,066
Balance at July 31, 2019	80,204,382	\$ 12,784,066

Options

The Company has adopted a stock option plan where it may issue a maximum of 16,000,000 options. Under the terms of the stock option plan, options may be granted only to: (i) employees, officers, directors, and consultants of the Company; and (ii) employees, officers, directors, and consultants of an affiliate of the Company.

Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and

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outstanding common shares, and the number of common shares reserved for issuance to all technical consultants will not exceed two percent of the issued and outstanding common shares.

As at July 31, 2019, the Company had the following options outstanding and exercisable:

Expiry Date	Exercise Price	Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Exercisable
May 18, 2023	\$ 0.30	3.80	11,650,000	11,650,000
September 28, 2023	0.30	4.16	600,000	200,000
April 11, 2019	0.36	4.70	500,000	-
May 7, 2024	0.26	4.77	500,000	500,000
May 10, 2024	0.245	4.78	150,000	150,000
July 30, 2024	\$ 0.25	5.00	1,500,000	500,004
			14,900,000	13,000,004

The following is a summary of the Company's stock option activity:

	Number of options	Weighted Average Exercise Price
Outstanding at April 30, 2018	-	\$ -
Granted	13,950,000	0.30
Forfeited	(1,166,666)	0.30
Outstanding at April 30, 2019	12,783,334	0.30
Granted	2,150,000	0.25
Forfeited	(33,334)	0.30
Outstanding at July 31, 2019	14,900,000	\$ 0.30
Exercisable at July 31, 2019	13,000,004	\$ 0.30

On May 18, 2018, the Company issued 12,750,000 stock options to employees and directors of the Company. 12,600,000 of these options vest on September 19, 2018, with another 150,000 vesting over a twelve month from the date of the grant. The exercise price of these options is \$0.30, and they expire on May 18, 2023. On September 18, 2018, 2,750,000 options that were set to vest on September 19, 2018 were extended to vest on January 19, 2019.

On September 28, 2018, the Company issued 700,000 stock options to employees. 233,334 of these options vested upon grant, 233,333 will vest on September 28, 2019 and 233,333 will vest on September 28, 2020. The exercise price of these options is \$0.30, and they expire on September 28, 2023.

On April 11, 2019, the Company issued 500,000 stock options to employees. 500,000 of these options will vest on August 12, 2019. The exercise price of these options is \$0.36, and they expire on April 11, 2024.

On May 7, 2019, the Company issued 500,000 stock options to an employee. These options vested upon grant. The exercise price of these options is \$0.26, and they expire on May 7, 2024.

On May 10, 2019, the Company issued 150,000 stock options to an employee. These options vested upon grant. The exercise price of these options is \$0.245, and they expire on May 10, 2024.

On July 30, 2019, the Company issued 1,500,000 stock options to employees and directors of the Company. 500,004 of these options vested upon grant, with another 499,998 vesting on the first anniversary of the grant, and the remaining 499,998 vesting on the second anniversary of the grant. The exercise price of these options is \$0.25, and they expire on July 30, 2024.

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During the three months ended July 31, 2019, 33,334 options were forfeited.

During the three months ended July 31, 2019, the Company recorded \$367,532 in stock-based compensation, based on the fair values of stock options granted which were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

For the three months ended July 31,	2019	2018
Risk free interest rate	1.47%-1.62%	1.59%-2.30%
Expected volatility	112.73%-119.08%	118.84%-123.65%
Expected life	5 years	5 years
Expected dividend yield	0%	0%
Exercise price	\$ 0.245-0.26	\$ 0.30-0.36

RELATED PARTY TRANSACTIONS

Summary of key management personnel 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 remuneration of directors and key management personnel during the three months ended July 31, 2019 and 2018 are set out below:

For the three months ended July 31,	2019	2018
Director fees	\$ 9,000	\$ -
Salaries, subcontractors, and benefits	114,000	125,923
Stock-based compensation	69,328	808,610
	\$ 192,328	\$ 934,533

Corporate Development Costs

On June 1, 2018, the Company entered into a master services agreement with a company controlled by a director to provide marketing, web development, planning, patent work, administrative services, and facilitation and negotiation services. For the three months ended July 31, 2019, the Company incurred fees of \$37,500 (July 31, 2018 – \$246,305). As at July 31, 2019, the Company was indebted to this company in the amount of \$16,547 (April 30, 2019 - \$Nil) which was included in accounts payable and accrued liabilities.

Product Development Costs

On January 19, 2018, the Company entered into a master services agreement and a statement of work to develop the initial phases of the product development strategy necessary to launch the TruTrace platform. The Company shares an officer with the service provider. For the three months ended July 31, 2019, the Company incurred fees of \$576,304 (July 31, 2018 - \$408,512). As at July 31, 2019, the Company was indebted to the service provider by \$95,119 (April 30, 2019 - \$97,683).

Other

As at July 31, 2019, \$Nil (April 30, 2019 - \$9,345) of expense reimbursements were due to a former director of the Company. As at April 30, 2019, it was included in accounts payable and accrued liabilities.

As at July 31, 2019, a note receivable of \$113,178 (April 30, 2019 - \$113,178) was due from a company controlled by a director of the Company. As at April 30, 2019, the Company impaired the balance of \$113,178.

NON-IFRS FINANCIAL MEASURES

This MD&A contains references to certain financial measures and associated per share data that do not have any standardized meaning as prescribed by IFRS and may not be comparable to similar measures presented by other companies. These financial measures are computed on a consistent basis for each reporting period and include EBITDA, Adjusted EBITDA, Adjusted net earnings, and working capital.

These non-GAAP measures are identified and defined as follows:

“**EBITDA**” is a measure of the Company’s operating profitability. EBITDA provides an indication of the results generated by the Company’s principal business activities prior to how these activities are financed, assets are depreciated and amortized or how the results are taxed in various jurisdictions.

EBITDA is derived from the unaudited condensed consolidated interim statements of operations and comprehensive income (loss) and is calculated as follows:

For the three months ended July 31,	2019	2018
Net loss	\$ (1,740,934)	\$ (8,998,361)
Depreciation	1,643	-
Interest income	(1,183)	(2,471)
EBITDA	\$ (1,740,474)	\$ (9,000,832)

“**Adjusted EBITDA**” is used by management and investors to analyze EBITDA (as defined above) prior to the effect of foreign exchange, other income and expenses, and share-based payment expense. Adjusted EBITDA is not intended to represent net earnings as calculated in accordance with IFRS. Adjusted EBITDA provides an indication of the results generated by the Company’s principal business activities prior to how these activities are financed, assets are depreciated, amortized and impaired, the impact of foreign exchange, how the results are taxed in various jurisdictions, effects of share-based payment expenses, and normalized other expenses not recurring in nature.

Adjusted EBITDA is calculated as follows:

For the three months ended July 31,	2019	2018
EBITDA	\$ (1,740,474)	\$ (9,000,832)
Plus:		
Stock-based compensation	367,532	2,496,562
Listing expense	-	2,321,019
Adjusted EBITDA	\$ (1,372,942)	\$ (4,183,251)

ADDITIONAL GAAP MEASURES DEFINITIONS

“**Funds provided by operations**” is used by management and investors to analyze the funds generated by the Company’s principal business activities prior to consideration of working capital, which is primarily made up of highly liquid balances. This balance is reported in the Condensed Consolidated Statements of Cash Flows and is included in the cash provided by operating activities section.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company’s objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these unaudited condensed consolidated interim financial statements.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents and trade receivables.

The carrying amount of financial assets represents the maximum credit exposure. All cash is held at a Canadian Chartered Bank.

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. If future cash flows are uncertain, the liquidity risk increases.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing financial liabilities. The Company's financial liabilities are comprised of accounts payable and accrued liabilities, and loan payable. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its existing working capital and equity issues. Furthermore, a portion of liabilities are expected to be settled in common shares of the Company, thereby mitigating liquidity risk. However, there is no assurance that the Company will have sufficient cash flow to be able to discharge its future financial liabilities.

c) Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to be immaterial. There is no interest payable on the loan payable and is, therefore, not subject to cash flow interest rate risk.

d) Exchange Rate Risk

Exchange rate risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company incurs certain expenses in US dollars and is exposed to foreign exchange rate fluctuation. These expenses are subject to exchange rate risk.

CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

New standard IFRS 16 Leases

The Company has adopted the new IFRS pronouncement as at May 1, 2019 in accordance with the transitional provisions of the standard and as described below. The adoption of this new IFRS pronouncement has not resulted in any adjustments to previously reported figures.

On January 13, 2016, the IASB issued IFRS 16. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 - Leases ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. At May 1, 2019, the Company adopted this standard and there was no material impact on the Company's unaudited condensed consolidated interim financial statements as the Company has no material lease contracts that fall under IFRS 16.

BUSINESS RISKS

You should carefully consider the following risks and uncertainties in addition to other information in TruTrace's filing statement dated May 10, 2018 with respect to the Transaction in evaluating the Company and its business. The market in which the Company competes is very competitive and changes rapidly. New risks may emerge from time to time and management may not be able to predict all of them or be able to predict how they may cause actual results to be different from those expected. References to "TruTrace" below refer to the Company and its affiliates as at the date hereof.

Limited Operating History and History of Losses

TruTrace has only recently commenced commercial operations and has cash, accounts receivable, sales tax receivable, prepaids and deposits, and property and equipment as assets. TruTrace has no history of earnings. As such, it is subject to many of the risks common to early-stage enterprises, including: under-capitalization; cash shortages; limitations with respect to personnel, financial, and other resources; and lack of revenue. Although TruTrace anticipates generating revenue in the future, it is also incurring substantial expenses in the establishment of its business. The success of the Company will ultimately depend on its ability to generate cash from its business. There is no assurance that the future expansion of the business will be sufficient to raise the required funds to continue the development of its business. There is no assurance that the Company will be successful in achieving a return on shareholders' investment, and the likelihood of success must be considered in light of the early stage of its operations.

Service Interruptions

TruTrace intends to serve customers from third-party data center hosting facilities located in British Columbia and Alberta. Any damage to, or failure of, TruTrace's systems could result in interruptions to its service. As TruTrace continues to add data centers and add capacity in existing data centers, it may move or transfer its data and its customers' data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of its services. Further, any damage to, or failure of, TruTrace's systems generally could result in interruptions in its service. Interruptions in TruTrace's service may reduce revenue, cause it to issue credits or pay penalties, cause customers to terminate their subscriptions and materially adversely affect its renewal rates and ability to attract new customers.

It is also expected that TruTrace's business might be harmed if its customers believe its service is unreliable. TruTrace intends to replicate and back-up customer data as part of its disaster recovery plans. However, these plans may not be successful in all circumstances. The Company will not control the operation of any third-party facilities it may use. All of the facilities it operates or utilizes would be vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of

terrorism, a decision to close any facility without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in TruTrace's service. Even with its disaster recovery arrangements, TruTrace's service could be interrupted and its business and financial condition could be materially adversely affected.

Need for Continued Development of Technology

The success of TruTrace's platform will be dependent on the accuracy, proper use and continuing development of its technological systems, including its business systems and operational platforms. Its ability to effectively use the information generated by its information technology systems, as well as its success in implementing new systems and upgrades, may affect its ability to: conduct business with its clients, including delivering services and solutions; manage its inventory and accounts receivable; purchase, sell, ship and invoice its products and services efficiently and on a timely basis; and maintain its cost-efficient operating model while expanding its business in revenue and in scale.

Ability to Generate Profits

There can be no assurance that TruTrace will generate net profits in future periods. Further, there can be no assurance that it will be cash flow positive in future periods. In the event that TruTrace fails to achieve profitability, the value of its shares may decline. In addition, if TruTrace is unable to achieve or maintain positive cash flows, it will be required to seek additional funding, which may not be available on favourable terms, or at all.

Regulatory Uncertainty

The legal global cannabis industry is still in its infancy and is dependent on the regulatory environment, including federal, state and local laws. TruTrace's business and achievement of its business objectives will be dependent, in part, on compliance with regulatory requirements enacted by governmental authorities for the collection and tracking of data related to the cannabis sector. While TruTrace expects that its business model will be perceived to be viable and compliant with applicable regulatory requirements, there is no guarantee that its platform will be adopted or utilized. To the extent that there are changes to existing regulations, the adoption and use of TruTrace's platform may be adversely affected.

In addition to the above, in jurisdictions such as the United States, the conflict between federal and state legislation could have a material adverse impact on TruTrace's business. TruTrace's management has determined that, at this time, it will only operate in Canada and, in the future, will only enter regulated markets where there is an alignment between all levels of government and in which the TSX Venture Exchange (the "TSXV") has approved it conducting operations. However, there can be no assurance that the regulatory environment will remain favourable to the conduct of TruTrace's business. Further, even within Canada, different provinces and local governmental authorities will have different regulatory requirements and it is possible that TruTrace's platform may not be compatible with those requirements. This variability may be difficult and/or ineffective to manage from both a technological and cost standpoint. In the event that TruTrace's business is determined to be non-compliant with certain applicable regulatory requirements, its business and financial condition could be materially adversely affected.

Blockchain Related Risks

The use of blockchain technology for enterprise applications is in its early stages. While numerous use cases have been developed to demonstrate the efficiency, security and viability of blockchain technology, it is still largely unproven. There are risks that the underlying blockchain protocols and methodologies will not be scalable or sustainable in industry-wide applications. As a new and largely unregulated industry, changes in or more aggressive enforcement of laws and regulations around blockchain could adversely impact companies involved in the industry. Failure or delays in obtaining necessary approvals, or changes in government regulations and policies and practices could have an adverse impact on TruTrace's future cash flows, earnings, results of operations and financial condition. Further, governmental agencies could shut down or restrict the use of blockchain platforms or blockchain based technologies. This could lead to a loss or interruption in business for TruTrace.

Intellectual Property Risk

TruTrace's activities may infringe on patents, trademarks or other intellectual property rights owned by others. If TruTrace is required to defend itself against intellectual property rights claims, it may spend significant time and effort and incur significant litigation costs, regardless of whether such claims have merit. If TruTrace is found to have infringed on the patents, trademarks or other intellectual property rights of others, it may also be subject to substantial claims for damages or a requirement to cease the use of such disputed intellectual property, which could have an adverse effect on its operations. Such litigation or claims and the consequences that could follow could distract management of TruTrace from the ordinary operation of its business and could increase costs of doing business, resulting in a negative impact on the business, financial condition, or results of operations of the Company.

Evolving Business Model

As digital assets and blockchain technologies become more widely available, management expects the services and products associated with them to evolve. As a result, to stay current with the industry, TruTrace's business model may need to evolve as well. From time to time, TruTrace may modify aspects of its business model relating to its product mix and service offerings. It cannot offer any assurance that these or any other modifications will be successful or will not result in harm to the business. TruTrace may not be able to manage growth effectively, which could damage its reputation, limit its growth and negatively affect its operating results. Such circumstances would have a material adverse effect on the Company's ability to continue as a going concern, which would have a material adverse effect on its business, prospects and operations, and harm TruTrace's investors.

Network Security Risks

TruTrace expects to obtain, transmit and store confidential user information in connection with its services. These activities are subject to the laws and regulations of Canada and other jurisdictions. The requirements imposed by these laws and regulations, which often differ materially among the many jurisdictions where TruTrace intends to offer services, are designed to protect the privacy of personal information and to prevent that information from being inappropriately disclosed. TruTrace expects to rely on a variety of technologies to secure its systems. Despite the implementation of network security measures, its infrastructure will potentially be vulnerable to computer break-ins and similar disruptive problems. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments, including improper acts by third parties, may result in a compromise or breach of the security measures that the Company uses to protect its systems. TruTrace could also suffer from an internal security breach.

Computer viruses, break-ins or other security problems could lead to misappropriation of proprietary information and interruptions, delays or cessation in service to TruTrace users. If internal TruTrace personnel or a third party were to misappropriate, misplace or lose corporate information, including financial and account information, customers' personal information, or source code, its business may be harmed. TruTrace may be required to expend significant capital and other resources to protect against these security breaches or losses or to alleviate problems caused by these breaches or losses. If third parties gain improper access to TruTrace's systems or databases or those of its partners or contractors, they may be able to steal, publish, delete or modify confidential customer information. A security breach could expose TruTrace to monetary liability, and lead to inquiries, fines, or penalties.

TSXV Restrictions on Business

TruTrace has undertaken to the TSXV that it will only conduct the cannabis related business currently being conducted and, unless prior written approval of the TSXV is obtained, will not engage in any cannabis related business outside of Canada. This could adversely affect TruTrace's ability to expand its business into other areas and may prevent it from expanding into new areas of business when its competitors that are not listed on the TSXV may not have such restrictions. Such restrictions could materially and adversely affect TruTrace's growth, business, financial condition and results of operations.

Reliance on Key Personnel

TruTrace's success depends in large measure on certain key personnel and the contributions of these individuals to its immediate operations are likely to be of central importance. The loss of the services of such key personnel could have a material adverse effect on the Company. In addition, the competition for qualified personnel in the blockchain industry is intense and there can be no assurance that TruTrace will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity, and good faith of TruTrace's management.

Management of Complex Software Implementation Projects

The successful deployment of TruTrace's software will depend on managing complex implementation projects. A variety of factors may result in complex deployments being delayed, cancelled or failing, including: the inherent complexity of modern software; difficulty staffing the project with qualified personnel; difficulty managing a project in which the customer and multiple vendors must work together effectively; unrealistic deadlines; inability to realistically limit the scope of the project; problems with third party systems, software or services; inaccurate or faulty data; and insufficient time and investment spent in the planning and design phases of the project. As a result, TruTrace may not be able to successfully manage deployments of its software which could harm its reputation, be costly to correct, delay revenues, and expose it to litigation.

Conflicts of Interest

Certain directors and officers of TruTrace are also directors and officers of other companies. In addition, they may devote time to other outside business interests, so long as such activities do not materially or adversely conflict with their duties to the Company. The interests of these persons could conflict with those of TruTrace. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of TruTrace board of directors, a director who has such a conflict will abstain from voting for or against the approval of any such matter. In accordance with applicable laws, the directors of TruTrace will be required to act honestly, in good faith, and in the best interests of TruTrace.

Competition

TruTrace expects to compete with other blockchain platforms focused on the cannabis sector. Market and financial conditions, and other conditions beyond TruTrace's control, may make it more attractive to invest in other financial vehicles which could limit the market for TruTrace's shares.

Other Information

Additional information about the Company is available under TruTrace's profile on SEDAR at www.sedar.com.

Approval

This MD&A is authorized for issue by the Board on September 23, 2019.