Condensed Interim Consolidated Financial Statements

For the three-months ended July 31, 2020

TruTrace Technologies Inc.

(Expressed in Canadian dollars)

Unaudited

TRU•TRACE Technologies

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)

As at **Expressed in Canadian dollars**	Note	**July 31, 2020**	April 30, 2020
Assets			
Current Assets			
Cash		**$ 3,606**	$ 12,536
Receivables	4	**53,855**	29,396
Prepaids and deposits	5	**47,840**	79,831
		105,301	121,763
Non-Current Assets			
Equipment		**14,692**	15,894
Intangible assets	6	**385,000**	-
Total Assets		**$ 504,993**	$ 137,657
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	7	**1,490,025**	2,416,837
		$ 1,490,025	$ 2,416,837
Non-Current Liabilities			
Loans payable		**40,000**	-
Convertible debentures	8	**251,632**	242,197
		291,632	242,197
Shareholders' Deficiency			
Share capital	9	**14,513,866**	13,511,366
Equity reserves	9	**3,879,086**	3,859,566
Deficit		**(19,669,616)**	(19,892,309)
Total Shareholders' Deficiency		**(1,276,664)**	(2,521,377)
Total liabilities and shareholder's deficiency		**$ 504,993**	$ 137,657

Nature of operations and going concern (note 1)
Subsequent events (note 16)

On behalf of the Board of Directors:

"Robert Galarza" — Chief Executive Officer

"Jim Carter" — Director

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME / (LOSS) Expressed in Canadian dollars - unaudited	Note	For the three months ended July 31, 2020	For the three months ended July 31, 2019
Revenues			
Service revenue	14	**$ 90,000**	$ 48,000
		90,000	48,000
Expenses			
Corporate development costs	10	**$ 600**	$ 262,410
Depreciation and amortization		**1,202**	1,643
General and administrative costs		**105,540**	295,503
Operating costs		**-**	5,000
Product development costs	10	**-**	576,304
Salaries, subcontractors, and benefits	10	**121,653**	270,931
Stock-based compensation	9,10	**19,520**	367,532
		(248,515)	(1,779,323)
Other income (expense)			
Foreign exchange		**59,612**	(9,008)
Interest and other expense		**(10,904)**	(603)
Gain on settlement of debt	13	**332,500**	-
		381,208	(9,611)
Net and comprehensive income (loss)		**$ 222,693**	$ (1,740,934)
Earnings / (loss) per share		**$ -**	$ (0.02)
Weighted average number of common shares outstanding – basic and diluted		**93,346,515**	80,204,382

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

TRU•TRACE Technologies

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREOLDERS' DEFICIENCY

Expressed in Canadian dollars - Unaudited	**Number of Common Shares**	**Share Capital**	**Obligation to issue shares**	**Equity Reserves**	**Deficit**	**Total Deficit**
Balance at April 30, 2019	80,204,382	$ 12,784,066	$ -	$ 3,246,353	$ (15,300,967)	$ 729,452
Private placement	-	-	235,000	-	-	235,000
Stock-based compensation	-	-		367,532	-	367,532
Net loss	-	-		-	(1,740,934)	(1,740,934)
Balance at July 31, 2019	80,204,382	$ 12,784,066	$ 235,000	$ 3,613,885	$ (17,041,901)	$ (408,950)
Balance at April 30, 2020	**83,361,732**	**$ 13,511,366**	$ -	**$ 3,859,566**	**$ (19,892,309)**	**$ (2,521,377)**
Shares for software license fee	**7,700,000**	**385,000**		**-**	**-**	**385,000**
Shares for debt settlement	**19,000,000**	**617,500**		**-**	**-**	**617,500**
Stock-based compensation	**-**	**-**		**19,520**	**-**	**19,520**
Net income	**-**	**-**		**-**	**222,693**	**222,693**
Balance at July 31, 2020	**110,061,732**	**$ 14,513,866**	**$ -**	**$ 3,879,086**	**$ (19,669,616)**	**$ (1,276,664)**

TRU•TRACE Technologies

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS	For the three months ended July 31	
Expressed in Canadian dollars – unaudited	**2020**	2019
Operating activities		
Net income (loss) for the period	**$ 222,693**	$ (1,740,934)
Adjustments for:		
Accretion expense	**3,732**	-
Depreciation and amortization	**1,202**	1,643
Gain on debt settlement	**(332,500)**	-
Interest on convertible notes	**5,703**	-
Stock-based compensation	**19,520**	367,532
	(79,650)	(1,371,759)
Net changes in non-cash working capital items:		
Increase in receivables	**(24,459)**	(188,014)
Decrease (increase) in prepaid expenses	**31,991**	(14,717)
Increase in accounts payable	**23,188**	147,102
Increase in deferred revenue	**-**	126,840
Funds used in operating activities	**(48,930)**	(1,300,548)
Financing activities		
Obligation to issue shares	**-**	235,000
Proceeds from loan payable	**40,000**	-
Funds provided by financing activities	**40,000**	235,000
Net decrease in cash	**(8,930)**	(1,065,548)
Cash, beginning of period	**12,536**	1,163,219
Cash, end of period	**$ 3,606**	$ 97,671

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

1. NATURE OF OPERATIONS

TruTrace Technologies Inc., (the “Company”) is a full-service technology company that has developed a fully integrated software platform, secured on a blockchain infrastructure that gives clients the ability to store, manage, share and immediately access quality assurance and testing details, Certificates of Authenticity (“CoA”), as well as motion and movement intelligence on inventory from batches and lots to serialized items.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. As of July 31, 2020, the Company has earned profits but generated negative cash flows from operations. The Company’s ability to continue as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary financing to continue operations and ultimately the attainment of profitable operations. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These condensed interim consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(a) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and do not include all of the information required for full annual financial statements.

The notes presented in these condensed consolidated interim financial statements include only significant events and transactions occurring since the Company’s last fiscal year end and they do not include all of the information required in the Company’s most recent annual financial statements. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company’s annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended April 30, 2020, which were prepared in accordance with IFRS as issued by IASB. Other than the estimated useful life on intangible assets acquired in the quarter, there have been no changes in judgment or estimates from those disclosed in the consolidated financial statements for the year ended April 30, 2020.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors as of October 9, 2020.

(b) Basis of Measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis; modified where applicable.

(c) Presentation Currency

These condensed interim consolidated financial statements are presented in Canadian dollars which is also the Company’s functional currency.

2. BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Use of Estimates and Judgements

The preparation of condensed consolidated interim financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgements in applying the Company's accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Intangible assets

An intangible asset is an identifiable asset without physical substance. An asset is identifiable if it is separable, or arises from contractual or legal rights, regardless of whether those rights are transferrable or separable from the Company or from other rights and obligations. Intangible assets include scientific or technical knowledge, design and implementation of new processes or systems, licences and intellectual property.

Finite-lived intangible assets acquired externally or internally generated and available for use are measured at cost less accumulated amortization and impairment losses. The amortization is recognized straight-line over their estimated useful lives from the date they are available for use. The cost of a group of intangible assets acquired externally is allocated to the individual intangible assets based on their relative fair values. The cost of intangible assets acquired externally comprises its purchase price and any directly attributable cost of preparing the asset for its intended use.

The amortization periods of the Company's intangible assets are as follows:

Type	Amortization period
License	5 years

Intangible assets with infinite lives are not amortized and is therefore subject to annual impairment testing.

(b) Impairment for Intangible assets

The carrying amounts of non-financial assets, intangible assets and property and equipment, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets that have indefinite lives and intangible assets not yet put into use are evaluated for impairment at least annually.

An impairment exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from observable market prices, less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. A change in any of the significant assumptions or estimates used to evaluate the underlying assets could result in a material change to the carrying amount of the asset and/or its recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Impairment for Intangible assets (cont'd)

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment had been recognized. Write-downs as a result of impairment are recognized in the consolidated statements of net loss and comprehensive loss.

The Company's impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model and estimated fair value less cost to sell. The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from the Company's budget for the future and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit ("CGU") being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The estimated fair value less cost to sell is based on the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less cost of disposal.

4. RECEIVABLES

		July 31, 2020		April 30, 2020
Trade receivables	**$**	**33,900**	$	-
HST receivable		**19,955**		29,396
Total receivables	**$**	**53,855**	$	29,396

5. PREPAIDS AND DEPOSITS

		July 31, 2020		April 30, 2020
Prepaids	**$**	**47,840**	$	**79,831**
Deposits		**-**		**-**
Total prepaids and deposits	**$**	**47,840**	$	**79,831**

6. INTANGIBLE ASSETS

In July 2020, the Company signed a software license agreement with OrionOne Global, Inc. ("OrionOne"), a global supply chain provider delivering best-in-class technology which serves as a logistics and tracking smart-hub for navigating shipments and logistics worldwide. Under the agreement, TruTrace will be able to leverage the OrionOne platform to support commercialization of its core products for its customers. The licensing cost of $385,000 has been capitalised under Intangible Assets and will be amortised as appropriate in the subsequent period. Amortization will commence in the second quarter. The Company's licenses were recorded at cost and amortized using straight line method over their estimated useful lives of 5 years.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		July 31, 2020		April 30, 2020
Accounts payable	**$**	**1,489,229**	$	2,416,041
Accrued liabilities		**796**		796
Total accounts payable and accrued liabilities	**$**	**1,490,025**	$	2,416,837

8. CONVERTIBLE DEBENTURES

		July 31, 2020		July 31, 2019
Opening balance	**$**	**242,197**	$	-
Accretion		**3,733**		-
Accrued interest		**5,702**		-
	$	**251,632**	$	-

The following summarizes the Company's unsecured convertible debentures ("Debentures") at face value as at April 30, 2020:

	Issuance Date	**Maturity Date**	**Face Rate**	**Principal**
Debenture 1	24-10-2019	24-10-2022	8.25%	$200,000
Debenture 2	31-10-2019	31-10-2022	8.25%	$25,000
Debenture 3	31-10-2019	31-10-2022	8.25%	$25,000
Debenture 4	31-10-2019	31-10-2022	8.25%	$25,000
Total				$275,000

The Company estimates 15% to be the market interest rate for a similar debt instrument without a conversion option. The initial liability component of the Debentures was calculated at the present value of interest payments and expected return using a discount rate of 15%. The equity component was determined using the residual method whereby, the fair value of the equity component is arrived at by deducting the amount determined separately for the liability from the face value of the instrument. Using this method, the Company determined that the fair value of the conversion feature was $37,620 which was recorded in the Company's equity reserve.

The holders of the Debentures are entitled to convert the unpaid principal and interest into units of the Company (each, a "Debenture Unit") at a conversion price of $0.25 per Debenture Unit, with each Debenture Unit comprised of one common share of the Company and one transferable share purchase warrant (each, a "Debenture Warrant"), with each Debenture Warrant exercisable into one additional common share at an exercise price of $0.30 per Debenture Warrant for a period equal to the later of: (i) ninety days from the date of conversion, or (ii) three years from the date of issue.

The Company shall have the right to require the holders to convert any principal and interest amount outstanding if, for any 10 consecutive trading days commencing on the date that is four months plus one day following the grant date and prior to the maturity date, the closing price of the common shares of the Company is greater than $0.50, subject to adjustment as provided for in the certificate representing the Debenture.

9. SHARE CAPITAL

Authorized share capital

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

Common shares issued

Period ended July 31, 2020

On June 24, 2020, the Company settled $950,000 of indebtedness (the "Indebtedness") previously owed to its primary vendor responsible for software development, design and maintenance of the Company's proprietary StrainSecure™ platform. Pursuant to the settlement of the Indebtedness, the Company issued 9,500,000 common shares of the Company to an assignee and 9,500,000 common shares to an officer of the Company who was a second assignee of the vendor. The Company has recognized a gain of $332,500 on the settlement.

Year ended April 30, 2020

In August 2019, the Company closed the first tranche of a private placement financing consisting of 2,040,000 units at $0.25 per unit for proceeds of $510,000. Each unit consists of one common share and one common share purchase warrant, which entitles the holder to purchase one additional common share of the Company at $0.30 per share for a period of three years. The fair value of the warrants was determined to be $nil using the residual method.

In September 2019, the Company closed the second tranche of a private placement financing consisting of 840,950 units at $0.25 per unit for proceeds of $210,238. Each unit consists of one common share and one common share purchase warrant, which entitles the holder to purchase one additional common share of the Company at $0.30 per share for a period of three years. The fair value of the warrants was determined to be $4,205 using the residual method.

In connection with the aforementioned private placements, the Company paid transaction costs of $14,456 in cash, issued 26,800 shares to the agent valued at $6,600, and issued 26,800 agent warrants valued at $4,277. The agent warrants were estimated using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate of 1.53%, an expected life of three years, an expected volatility of 134% and no expected dividends.

On November 8, 2019 the Company issued 250,000 common shares with a fair value of $30,000 to settle vendor debt.

Warrants

There were no warrants issued during the period ended July 31, 2020.

As at July 31, 2020, the Company had the following warrants outstanding:

Date issued	Expiry date		Exercise price	Number of warrants outstanding
August 22, 2019	August 22, 2022	$	0.30	2,040,000
September 13, 2019	September 13, 2022	$	0.30	840,950
September 13, 2019	September 13, 2022	$	0.30	26,400
				2,907,350

The weighted average remaining contractual life of warrants outstanding as of July 31, 2020 was 2.08 years.

9. SHARE CAPITAL (CONT'D)

Options

As at July 31, 2020 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	2.49	11,500,000	11,500,000
September 28, 2023		0.30	3.16	300,000	200,000
April 11, 2024		0.36	0.58	500,000	500,000
May 7, 2024		0.26	3.77	500,000	500,000
May 10, 2024		0.245	3.78	150,000	150,000
July 30, 2024	$	0.25	4.00	1,400,000	966,668

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. Of the options issued, 250,004 of these options vested upon grant, with another 249,998 vesting on the first anniversary of the grant, and the remaining 249,998 vesting on the second anniversary of the grant. The exercise price of these options is $0.25 and fair valued, using the Black-Scholes Pricing Model, at $0.20 per option. The remaining 750,000 options vest on specific performance of milestones set out and agreed to. As of April 30, 2020. Approximately 97% of these options vested. The remaining 3% options will vest upon the achievements towards the remaining performance milestones. All of the 1, 500,000 issued expired on July 30, 2024.

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

	31-07-2020		30-04-2020	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Opening Balance	**14,900,000**	**0.30**	12,783,334	0.30
Granted	**-**	**0.25**	2,150,000	0.30
Forfeited	**(550,000)**	**0.30**	(33,334)	0.30
Closing Balance	**14,350,000**	**0.30**	14,900,000	0.30
Exercisable at period end	**13,816,668**	**0.30**	13,766,670	0.30

During the three months ended July 31, 2020, 550,000 options were forfeited.

10. RELATED PARTY TRANSACTIONS

Summary of key management personnel compensation:

For the three months ended July 31,		2020		2019
Director fees	**$**	**78,000**	$	9,000
Salaries, subcontractors, and benefits		**37,500**		114,000
Stock-based compensation		**18,573**		69,328
	$	**134,073**	$	192,328

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, 2020 is set out below:

Other

As at July 31, 2020, $6,425 (April 30, 2020 - $6,425) of expense reimbursements were due to a former director..

Executive and Board Compensation

Key management includes the executive officers of the Company.

The following summary table indicates the compensation earned during the three months ended July 31, 2020 and 2019 by the CEO, CFO, and CTO, excluding payments to the accounting firm for accounting services which include a portion of the CFO compensation, disclosed above. Not included in compensation expense are amounts paid to persons previously filling executive roles through consulting arrangements.

For the three months ended July 31,	Number of Options Granted		Share-Based Payment Expense		Salary		Total
2020	**Nil**	**$**	**8,738**	**$**	**75,000**	**$**	**83,738**
2019	450,000	$	30,123	$	90,000	$	120,123

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The judgements and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level is as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

12. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

- Level 3 inputs are unobservable inputs for the asset or liability.

As of July 31, 2020, the Company's financial instruments consist of receivables and accounts payable. Cash is measured at fair value with level 1 inputs. The fair values of receivables, and accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term to maturity nature.

The carrying value of the convertible debentures approximates fair value as the liability component was discounted using an estimated market rate.

13. OTHER INCOME

In June 2020, the Company settled $950,000 of indebtedness (the "Indebtedness") previously owed to its primary vendor responsible for software development, design and maintenance of the Company's proprietary StrainSecure™ platform. Pursuant to the settlement of the Indebtedness, the Company issued 9,500,000 common shares of the Company to an assignee and 9,500,000 common shares to an officer of the Company who was a second assignee of the vendor. The Company recognized a gain of $332,500 on the settlement.

14. ECONOMIC DEPENDENCE

Major customer

The Company derived approximately 100% (2019 - nil%) of its revenue from one customer. Sales to this customer may fluctuate significantly from time to time depending on the timing and level of services provided. Significant transactions from such a customer may expose the Company to a concentration of credit risk and difficulties in collecting amounts due, which could harm the Company's financial results

15. SUBSEQUENT EVENTS

a. In September 2020, the Company closed a non-brokered private placement financing of subordinated secured convertible debentures in the aggregate principal amount of $360,000. The debentures mature three years from the date of issuance and bear interest of 8.25% per annum. The principal amount of a debenture, together with any accrued and unpaid interest, will be payable on the maturity date, unless earlier converted in accordance with its terms. The principal amount of a debenture, together with all accrued and unpaid interest thereon, is convertible into units of the Company (each, a "Debenture Unit"), at the option of the holder, at a conversion price of $0.05 per Debenture Unit (the "Conversion Price"), with each Debenture Unit comprised of one common share of the Company (each, a "Debenture Share") and one transferable share purchase warrant (each, a "Debenture Warrant"), with each Debenture Warrant exercisable into one additional Debenture Share (each, a "Debenture Warrant Share") at an exercise price of $0.05 per Debenture Warrant Share for a period of two years from the date of issue; and the Company has the right, at its sole option and, at any time prior a debenture maturity date, to require the holder to convert all or any portion of the outstanding principal amount and any accrued but unpaid Interest thereon into Debenture Units at the Conversion Price, if the daily volume-weighted average price of the common shares of the Company on the Canadian Securities Exchange (or such other stock exchange on which the common shares may be traded at such time) for any 10 day consecutive trading day period is greater than $0.20, subject to adjustment as provided for in the certificate representing the debenture.

b. In September 2020, a holder of a debenture issued in October 2019 agreed to convert an outstanding debenture with an amount owing of $213,538 into 4,273,160 common shares at a revised conversion price of $0.05 per share, in full settlement of the amount owing under the debenture. The debenture had been previously convertible into a conversion unit at a price of $0.25 per conversion unit, with each such conversion unit comprised of a common share and a share purchase warrant exercisable at $0.30 per share.