Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2021 and January 31, 2020

TruTrace Technologies Inc.

(Expressed in Canadian dollars)

Unaudited

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 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

Expressed in Canadian dollars - unaudited as at	Note		**January 31, 2021**		April 30, 2020
Assets					
Current Assets					
Cash		**$**	**122,429**	$	12,536
Accounts receivable	4		**35,769**		29,396
Prepaids and deposits			**21,400**		31,991
			179,598		73,923
Non-Current Assets					
Equipment			**12,554**		15,894
Intangible asset	5		**336,166**		-
Total Assets		**$**	**528,318**	$	89,817
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities			**2,022,844**		2,416,837
Advance from private placement			**125,000**		-
		$	**2,147,844**	$	2,416,837
Non-Current Liabilities					
Loans payable	7		**60,000**		-
Convertible debentures	6		**176,039**		242,197
			2,383,883		2,659,034
Shareholders' Deficiency					
Share capital	8		**14,831,292**		13,511,366
Equity reserves	8		**4,052,413**		3,859,566
Deficit			**(20,739,270)**		(19,940,149)
Total Shareholders' Deficiency			**(1,855,565)**		(2,569,217)
Total liabilities and shareholder's deficiency		**$**	**528,318**	$	89,817

Nature of operations and going concern (note 1)
Subsequent events (note 13)

On behalf of the Board of Directors:

"Robert Galarza"
Director

"Michael Kraft"
Director

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

TRU•TRACE Technologies

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS		For the three months ended January 31,		For the nine months ended January 31,	
Expressed in Canadian dollars - unaudited	Note	**2021**	2020	**2021**	2020
Revenues					
Service revenue	12	**$ -**	$ 300,000	$ **162,000**	$ 651,520
Expenses					
General and administrative costs		**144,124**	369,439	**405,812**	835,796
Salaries, subcontractors, and benefits	9	**133,849**	182,867	**377,143**	664,987
Product development costs	9	**65,021**	577,013	**333,250**	1,729,404
Amortization of intangible assets		**19,021**	-	**44,244**	-
Stock-based compensation	8,9	**5,563**	44,090	**32,687**	478,331
Depreciation		**1,027**	1,404	**3,340**	4,566
Corporate development costs	9	**$ -**	$ 268,021	$ **600**	$ 716,249
		368,605	1,442,834	**1,197,076**	4,429,333
Other expense(income)					
Foreign exchange (gain) loss		**(669)**	25,537	**(9,336)**	43,259
Finance expense	10	**50,036**	12,050	**105,882**	14,935
Gain on settlement of debt	8	**-**	-	**(332,500)**	-
		49,367	37,587	**(235,954)**	58,194
Comprehensive loss		**$ (417,972)**	$ (1,180,421)	$ **(799,122)**	$ (3,836,007)
Loss per share		**$ (0.00)**	$ (0.01)	$ **(0.01)**	$ (0.05)
Weighted average number of common shares outstanding – basic and diluted		**114,611,341**	83,339,993	**103,994,060**	81,917,820

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

TRU•TRACE Technologies

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY

Expressed in Canadian dollars – Unaudited	Number of Common Shares	Share Capital	Equity Reserves	Deficit	Total Shareholders' Deficiency
Balance at April 30, 2019	80,204,382	$ 12,784,066	$3,246,353	$(15,300,967)	$729,452
Private placement	2,880,950	716,033	4,205	-	720,238
Issuance of convertible debentures	-	-	37,620	-	37,620
Share issue cost	26,400	(18,733)	4,277	-	(14,456)
Shares for debt settlement	250,000	30,000			30,000
Stock-based compensation	-	-	478,331	-	478,331
Comprehensive loss	-	-	-	(3,836,007)	(3,836,007)
Balance at January 31, 2020	83,361,732	$13,511,366	$3,770,786	$(19,136,974)	$(1,854,822)
Balance at April 30, 2020	**83,361,732**	**$ 13,511,366**	**$3,859,566**	**$(19,940,148)**	**$(2,569,216)**
Shares for software license fee	**7,700,000**	**346,500**	**-**	**-**	**346,500**
Shares for debt settlement	**19,000,000**	**617,500**	**-**	**-**	**617,500**
Conversion of convertible debentures	**9,315,873**	**355,926**	**109,867**	**-**	**465,793**
Issuance of convertible debentures	**-**	**-**	**50,293**	**-**	**50,293**
Stock-based compensation	**-**	**-**	**32,687**	**-**	**32,687**
Comprehensive loss	**-**	**-**	**-**	**(799,122)**	**(799,122)**
Balance at January 31, 2021	**119,377,605**	**$14,831,292**	**$4,052,413**	**$(20,739,270)**	**$(1,855,565)**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS	For the nine months ended January, 31			
Expressed in Canadian dollars – unaudited		**2021**		2020
Operating activities				
Comprehensive loss for the period	**$**	**(799,122)**	$	(3,836,007)
Adjustments for:				
Finance expense		**102,233**		10,998
Amortization		**44,244**		-
Depreciation		**3,340**		4,566
Gain on settlement of debt		**(332,500)**		-
Stock-based compensation		**32,687**		478,331
		(949,118)		(3,342,112)
Net changes in non-cash working capital items:				
(Increase) decrease in accounts receivables		**(6,373)**		32,936
Decrease (Increase) in prepaids and deposits		**10,591**		(12,494)
Increase in accounts payable		**574,793**		1,173,796
Funds used in operating activities		**(370,107)**		(2,147,874)
Financing activities				
Advance from private placement		**125,000**		-
Proceeds from issuance of common shares		**-**		705,781
Proceeds from issuance of convertible debentures		**295,000**		261,050
Share issued for settlement of debt		**-**		30,000
Proceeds from loan payable		**60,000**		-
Funds provided by financing activities		**480,000**		996,831
Net Increase (decrease) in cash		**109,893**		(1,151,043)
Cash, beginning of period		**12,536**		1,163,219
Cash, end of period	**$**	**122,429**	$	12,176

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. The Company was incorporated under the British Columbia Business Companies Act on October 19, 2011 and is publicly listed on the Canadian Securities Exchange "CSE", 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.

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 January 31, 2021, the Company has incurred losses and 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 interim consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year end. They do not include all of the information required in the Company's most recent annual financial statements. These condensed interim consolidated 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 an intangible asset acquired, there have been no changes in judgments 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 March 30 ,2021.

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 interim consolidated 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 asset

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 asset based on 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 period of the Company's intangible asset is as follows:

Type	Amortization period
License	5 years

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

b) Impairment for Intangible asset

The carrying amounts of non-financial assets, intangible assets 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.

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)

b) Impairment for Intangible asset (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 operations 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. ACCOUNTS RECEIVABLE

		January 31, 2021		April 30, 2020
Trade receivables	**$**	**10,000**	$	-
HST receivable		**25,769**		29,396
Total accounts receivable	**$**	**35,769**	$	29,396

5. INTANGIBLE ASSET

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 $380,410 has been capitalised under intangible asset. The Company's license is being amortized using the straight-line method over its useful life of 5 years. Amortization for the nine months ended January 31, 2021was $44,244 (January 31, 2020-$nil).

6. CONVERTIBLE DEBENTURES

		January 31, 2021		April 30, 2020
Opening balance, beginning of period	**$**	**242,197**	$	-
Issuance of convertible debentures		**360,000**		275,000
Issuance costs		**(10,000)**		(13,950)
Allocation of equity component		**(50,293)**		(37,620)
Accretion		**78,588**		7,158
Accrued interest		**21,341**		11,609
Converted into common shares & warrants		**(465,794)**		-
Closing balance, end of period	**$**	**176,039**	$	242,197

The following summarizes the Company's unsecured convertible debentures ("Debentures") at face value as at January 31, 2021:

	Issuance Date	Maturity Date	Face Rate	Principal (in CAD)
Debenture 2 to 4	31-10-2019	31-10-2022	8.25%	75,000
Debenture 5,8 & 11to 14	02-09-2020	02-09-2023	8.25%	115,000
Total				**190,000**

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 were calculated at the present value of interest payments and expected returns 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 component from the face value of the instrument. Using this method, the Company determined that the fair value of the conversion features were $87,914 which was recorded in the Company's equity reserve.

October 31, 2019 Debentures- The holders 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.

September 2, 2020 Debentures- The holders are entitled to convert the unpaid principal and interest into Debenture Units at a conversion price of $0.05 per Debenture Unit, with each Debenture Unit comprising of a Debenture Warrant and where each Debenture Warrant is exercisable into one common share at a price of $0.05 per Debenture Warrant for a period of two years from the closing date, subject to adjustment as provided for in the debenture certificate.

The Company shall have the right to require the holders of Debentures 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 (for October 31, 2019 issue) or $0.20 (for September 2, 2020 issue), subject to adjustment as provided for in the certificate representing the Debenture.

6. CONVERTIBLE DEBENTURES (CONT'D)

On August 14, 2020, the Company converted Debentures of $213,658 consisting of $200,000 of principal and $13,658 of interest into 4,273,160 common shares @ $0.05 per share.

On January 18, 2021, the Company converted Debentures of $51,526 consisting of $50,000 of principal and $1,526 of interest into 1,030,513 Debenture Units. Each equity component of the unit, which consisted of common shares and warrants were ascribed fair value using a relative fair value approach. Fair value was allocated to warrants & common shares for $22,026 and $29,500, respectively.

On January 28, 2021, the Company converted Debentures of $200,610 consisting of $195,000 of principal and $5,610 of interest into 4,012,200 Debenture Units. Each equity component of the unit, which consisted of common shares and warrants were ascribed fair value using a relative fair value approach. Fair value was allocated to warrants and common shares for $87,841 and $112,769, respectively.

7. LOANS

The Company received $60,000 under the Canadian Emergency Business Account Program. The interest rate is zero percent until the termination date of December 31, 2022 and thereafter at 5% per annum. Repayments made before this date will enable the Company to become eligible for a forgiveness benefit of at least $20,000. If repayment is not made by December 31, 2022, then the loan will automatically extend for three years.

8. SHARE CAPITAL

Authorized share capital

An unlimited number of common shares and preferred shares without par value.

Common shares issued

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.

8. SHARE CAPITAL (CONT'D)

On June 24, 2020, the Company settled $950,000 of indebtedness previously owed to its primary vendor responsible for software development, design and maintenance of the Company's proprietary StrainSecure™ platform by issuing 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 settlement.

On July 2, 2020, the Company issued 7,700,000 common shares to an officer of the Company in exchange for a software licence. The shares on the date of grant were valued at $346,500.

On August 14, 2020, the Company converted Debentures of $213,658 consisting of $200,000 of principal and $13,658 of interest into 4,273,160 common shares @ $0.05 per share.

On January 18, 2021, the Company converted Debentures of $51,526 consisting of $50,000 of principal and $1,526 of interest into 1,030,513 Units. Each Unit is comprised of one common share and one common share purchase warrant were ascribed fair value using a relative fair value approach and out of $51,526, relative fair value for $29,499 was allocated to common shares.

On January 28, 2021, the Company converted Debentures of $200,610 consisting of $195,000 of principal and $5,610 of interest into 4,012,200 common shares @ $0.05 per share. Each Unit is comprised of one common share and one common share purchase warrant and out of $200,610; relative fair value for $112,769 was allocated to common shares.

Warrants

Total 1,431,733 numbers of warrants were issued during the period ended January 31, 2021.
As at January 31, 2021, 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
January 18, 2021 (i)	September 2, 2022	$	0.05	1,030,513
January 28, 2021 (ii)	September 2, 2022	$	0.05	4,012,200
				7,950,063

The weighted average remaining contractual life of warrants outstanding as of January 31, 2021 was 1.58 years.

(i) On January 18, 2021, the Company converted Debentures of $51,526 consisting of $50,000 of principal and $1,526 of interest into 1,030,513 Debenture Units. Each Debenture Unit is comprised of one common share and one common share purchase warrant. Fair value of the warrants was determined using relative fair value and were allocated $22,026 of the $51,526.

(ii) On January 28, 2021, the Company converted Debentures of $200,610 consisting of $195,000 of principal and $5,610 of interest into 4,012,200 Debenture Units. Each Debenture Unit is comprised of one common share and one common share purchase warrant. Fair value of the warrants was determined using relative fair value and were allocated $87,841 if the $200,610.

8. SHARE CAPITAL (CONT'D)

Options

As at January 31, 2021 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
Feb 28, 2021	$ 0.36	0.08	500,000	500,000
May 18, 2023	0.30	1.98	11,500,000	11,500,000
September 28, 2023	0.30	2.66	300,000	300,000
May 7, 2024	0.26	3.27	500,000	500,000
May 10, 2024	0.245	3.27	150,000	150,000
July 30, 2024	$ 0.25	3.50	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 January 31, 2021, approximately 97% of these options vested. The remaining 3% of options will vest upon the achievement towards the remaining performance milestones. All of the 1,500,000 issued expire on July 30, 2024.

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

	January 31, 2021		April 30, 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	**-**	**-**	2,150,000	0.25
Forfeited	**(550,000)**	**0.29**	(33,334)	0.30
Closing Balance	**14,350,000**	**0.30**	14,900,000	0.30
Exercisable at period end	**13,916,668**	**0.30**	13,766,670	0.30

For the three and nine months ended January 31, 2021, the Company incurred stock-based compensation expense of $5,562 and $32,687 respectively (January 31, 2020- $44,090 and $478,331 respectively).

9. 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 and nine months ended January 31, 2021 is set out below:

		For the three months ended January 31,			For the nine months ended January 31,	
		2021	2020		**2021**	**2020**
Director fees	**$**	**31,200**	6,000	**$**	**58,200**	24,000
Salaries, subcontractors, and benefits		**75,000**	100,900		**225,000**	337,000
Stock-based compensation		**4,615**	25,230		**29,844**	127,966
	$	**110,815**	140,230	**$**	**313,044**	488,966

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 and nine months ended January 31, 2021, the Company incurred $ nil as corporate development fees compared to the three and nine months ended January 31, 2020 which amounted to $40,500 and $118,500 respectively. As at January 31, 2021, the Company was indebted to this company for $80,671 (April 30, 2020 - $85,671) which is 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. All work entered into between the Company and service provider since that time has related specifically to the development and design of the StrainSecure™ platform.

For the three and nine months ended January 31, 2021, the Company incurred $65,021 and $333,250 respectively for product development costs compared to the three and nine months ended January 31, 2020 which amounted to $577,012 and $1,729,404 respectively and which principally consisted of development costs. As at January 31, 2021, the Company was indebted to the service provider for $411,315 (April 30, 2020 - $1,060,959).

Software License Fees

The Company has incurred $382,410 of software license fees paid or payable to a company to which an officer of the Company has ownership. $26,997 is included in accounts payable as at January 31, 2021 (January 31, 2020 -$nil).

Other

As at January 31, 2021 $nil (April 30, 2020 - $6,425) of expense reimbursement were due to a former director of the Company.

10. FINANCE EXPENSE

During the periods ended January 31, 2021 & January 31, 2020 the Company incurred finance expenses as follows:

		January 31, 2021		January 31, 2020
Interest & accretion	$	**99,930**	$	9,676
Bank charges & other interest		**5,952**		5,259
	$	**105,882**	$	14,935

During the periods ended January 31, 2021 & January 31, 2020 the Company paid finance expenses as follows:

		January 31, 2021		January 31, 2020
Interest expense	$	**2,303**	$	42
Bank charges & other interest paid		**3,649**		5,217
	$	**5,952**	$	5,259

11. 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 condensed consolidated interim financial statements.

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.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

	Payments due by Period			
	< 1 year	**>1 and < 2 years**	**2 - 3 years**	**Total**
Accounts payable and accrued liabilities	$2,022,844	$ -	$ -	$2,022,844
Convertible debentures	-	75,000	115,000	190,000
Loans payable	-	60,000	-	60,000
	$2,022,844	**$135,000**	**$115,000**	**$2,272,844**

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.

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

As of January 31, 2021, the Company's financial instruments consist of accounts receivable net of HST and accounts payable. Cash is measured at fair value with level 1 input. 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.

12. ECONOMIC DEPENDENCE

Major customer
The Company derived approximately 100% (2019 – 100%) 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.

13. SUBSEQUENT EVENTS

(i) On February 12, 2021, the Company closed a non-brokered private placement of 30,000,000 units of the Company at a price of $0.05 per unit for gross proceeds of $1,500,000. Each unit consists of a common share and one non-transferable common share purchase warrant of the Company. Each warrant will entitle the holder to purchase one additional common share for a period of 24 months from closing at a price of $0.05. The Company paid an aggregate of $29,100 and issued 384,000 broker warrants in connection with this offering.

(ii) On February 24, 2021, the Company granted an aggregate of 1,000,000 options to purchase up to 1,000,000 common shares of the Company to two directors of the Company. One quarter of the options vested upon issuance. The remaining options vest in equal monthly amounts over 6 months. The options are exercisable for a period of 5 years from the date of grant and will be a subject to hold a period.

(iii) Subsequent to period end through to the date of approval of these financial statements, the principle amount of $110,000 of convertible debentures and $3,899 of associated interest has been converted into 2,277,978 common shares of the Company.

(iv) On March 18, 2021, 1,038,198 warrants were exercised into 1,038,198 common shares of the Company.