

tracesafe

TraceSafe Inc.
(Formerly Blockchain Holdings Ltd.)

Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2021 and 2020
(Unaudited)

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

Condensed Consolidated Balance Sheets

(Expressed in US Dollars – unaudited)

	June 30	June 30
	2021	2020
Assets		
Current assets		
Cash	\$ 664,720	\$ 254,334
Receivables	2,859,169	465,970
Prepaid expenses	166,043	56,368
Inventory	2,137	-
	3,692,069	776,672
Fixed assets	28,976	-
Investments	4,070,233	1,182,000
Goodwill	3,650,355	-
	\$ 11,441,633	\$ 1,958,672
Liabilities		
Current liabilities		
Payables	\$ 1,972,244	\$ 971,262
Accrued expenses	231,799	-
Deferred revenue	2,824,828	-
Accounts receivable factoring	785,591	-
Consideration payable	1,099,014	-
	6,913,476	971,262
Notes Payable (Note 8)	201,594	-
	7,115,070	971,262
Shareholders' equity		
Share capital	19,360,429	12,355,667
Warrant and option reserve	1,258,973	2,417,133
Equity attributable to non-controlling interest	3,514,415	-
Contributed surplus	820,690	-
Accumulated other comprehensive earnings	(31,794)	(34,797)
Retained earnings	(20,596,150)	(13,750,593)
	4,326,563	987,410
	\$ 11,441,633	\$ 1,958,672

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

Condensed Consolidated Statements of Earnings and Comprehensive Loss

(Expressed in US Dollars – unaudited)

	April 1 to June 30		January 1 to June 30	
	2021	2020	2021	2020
Revenue				
Product sale	\$ 2,849,701	\$ 516,274	\$ 3,689,936	\$ 516,274
Service income	549,608	-	996,548	-
	3,399,309	516,274	4,686,484	-
Cost of revenue (Note 8)	3,010,170	322,101	4,150,094	322,101
	389,140	194,173	536,391	194,173
Operating expenses				
Bad debt expense	-	-	5,000	-
Bank charges	3,505	2,562	7,367	3,101
Depreciation	1,697	-	2,440	-
Development	489,124	327,055	945,038	327,055
General and administration	139,464	22,241	382,242	54,766
Marketing	95,687	-	123,875	-
Personnel, payroll, and consultants	955,696	98,059	1,898,439	155,584
Professional fees	300,235	495,952	532,482	582,889
Regulatory and transfer agent fees	9,157	16,150	23,075	21,766
Stock-based compensation	-	-	2,126,286	665,638
	1,994,564	962,019	6,046,243	1,810,799
Operating Loss	(1,605,425)	(767,846)	(5,509,853)	(1,616,626)
Other items				
Other income (Note 9)	-	-	(11,891)	(14,461)
Interest (Note 10)	129,944	168,563	243,716	168,563
Tax	60,288	-	60,288	-
Foreign exchange	11,193	3,988	22,692	3,052
Net loss	\$ (1,806,850)	\$ (940,397)	\$ (5,824,658)	\$ (1,773,780)
Net loss attributed to parent	(393,133)	(940,397)	(3,278,035)	(1,773,780)
Net loss attributed to non-controlling interest	(1,413,716)	-	(2,546,621)	-
Total comprehensive loss	\$ (1,806,850)	\$ (940,397)	\$ (5,824,658)	\$ (1,773,780)
Loss per share attributed to owners of the parent. Basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.08)	\$ (0.07)
Weighted average number of shares outstanding. Basic and diluted	43,435,908	29,630,662	40,606,041	26,186,918

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

Condensed Consolidated Statements of Changes in Shareholders' Equity
(Expressed in US Dollars – unaudited)

	April 1 to June 30		January 1 to June 30	
	2021	2020	2021	2020
Share Capital				
Balance - beginning of period	\$ 20,977,405	\$ 12,049,419	\$16,640,138	\$ 11,137,327
Issuance of shares by warrants	552,780	-	2,750,788	246,454
Issuance of shares by options	86,179	306,248	212,095	306,248
Issuance of shares for performance	-	-	2,113,343	665,638
Repurchase of common shares	-	-	-	-
Balance - end of period	\$ 21,616,364	\$ 12,355,667	\$21,616,364	\$ 12,355,667
Retained Earnings				
Balance - beginning of period	\$ (19,934,464)	\$ (12,810,196)	\$ (15,916,656)	\$ (11,976,813)
Net loss	(1,806,850)	(940,397)	(5,824,658)	(1,773,780)
Balance - end of period	(21,741,314)	(13,750,593)	(21,741,314)	(13,750,593)
Adjustment for non-controlling interest	(6,446,369)	-	(6,446,369)	-
Net retained earnings for owners of parent company	\$ 28,187,683	\$ (13,750,593)	\$ (28,187,683)	\$ (13,750,593)
Number of Shares Outstanding				
Balance - beginning of period	43,057,967	25,035,244	35,765,784	22,238,031
Issuance of shares by warrants	1,441,667	-	5,828,850	1,097,213
Issuance of shares by options	217,254	6,252,177	572,254	6,252,177
Issuance of shares for performance	-	-	2,550,000	1,700,000
Repurchase of common shares	-	-	-	-
Balance - end of period	44,716,888	31,287,421	44,716,888	31,287,421

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

Condensed Consolidated Statements of Cash Flows

(Expressed in US Dollars – unaudited)

	April 1 to June 30		January 1 to June 30	
	2021	2020	2021	2020
Operating activities				
Net loss	\$ (1,806,879)	\$ (833,383)	\$ (5,824,687)	\$ (1,773,781)
Changes in working capital				
Accounts Receivable	(1,904,583)	-	(991,244)	(464,774)
Prepaid	281,668	12,418	651,938	(33,301)
Depreciation	72,836	-	73,573	-
Accounts Payable	1,028,679	62,746	1,150,870	825,902
A/R Factoring Payable	(377,833)	-	(682,194)	-
Accrued Liabilities	(7,170)	-	(294,419)	-
Loan Payable	-	(14,246)	110,000	-
Deferred Revenue	2,391,310	-	2,770,910	-
Share based compensation	-	665,638	-	-
	(321,971)	(106,827)	(3,035,252)	(1,445,954)
Financing activities				
Common Stock	638,960	246,454	5,076,227	1,218,340
Stock Options	(536,186)	69,877	(2,151,831)	-
Convertible Debenture	-	-	-	781,229
Notes Payable	201,594	-	201,594	-
	304,368	316,331	3,125,990	1,999,569
Investing activities				
Acquisition of TraceSafe Technology	-	-	-	(300,000)
Fixed Assets	(2,867)	-	(31,444)	-
Demand Loan to EQITrade	-	(150,000)	-	-
	(2,867)	(150,000)	(31,444)	(300,000)
Change in cash	(20,470)	59,504	59,294	253,615
Cash – beginning of period	685,190	719	604,426	719
Cash – end of period	\$ 664,720	\$ 60,223	\$ 664,720	\$ 254,334

TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

Notes to Condensed Consolidated Interim Financial Statements
(Expressed in US Dollars, unless otherwise stated – unaudited)

1. Nature and continuance of operations

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

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

The assessment of the Company’s ability to continue is an on-going concern, and its ability to fund potential projects involves significant judgement based on historical experience and other factors (including expectation of future events) that are believed to be reasonable under the circumstances.

The Company’s business involves a high degree of risk and there can be no assurance that current business development activity will ultimately result in profitable operations. The Company’s continued existence is dependent upon its ability to secure future customers and the achievement of profitable operations, or the ability of the Company to raise additional financing.

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

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on July 20, 2021.

Basis of Measurement

The financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Control exists when the Company has power over an investee, exposure or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company's returns. Details of controlled entities are as follows:

	Jurisdiction of Incorporation	Percentage Owned	
		June 30, 2021	June 30, 2020
Jucca Holdings Limited	British Virgin Islands	100%	100%
Wishland Properties Limited	British Virgin Islands	100%	100%
TraceSafe Technologies Inc.	Nevada, United States	8.2%	20.4%
TraceSafe Asia Pacific Pte Ltd.	Singapore	100%	-
TraceSafe Canada Inc.	British Columbia, Canada	100%	-

The Company owns 100% of the voting common shares of TraceSafe Technologies Inc. ("TraceSafe Tech") and therefore has consolidated TraceSafe Tech with the equity interest attributable to the non-controlling majority shareholder presented as non-controlling interest. (See Note 8)

TraceSafe Inc. owns 70% of the voting shares of the subsidiary TraceSafe Asia Pacific Pte. Ltd. and the Company required a local director to manage the day-to-day operations and is a representative of the Company. Due to certain agreements related to this arrangement, the Company has functional control and beneficial (100%) ownership.

On March 1, 2021, TraceSafe Canada Inc. was incorporated in the province of British Columbia, Canada. There are no operations in TraceSafe Canada Inc. as of June 30, 2021.

The Company attributes total comprehensive income or loss of subsidiaries between the owners of the parent entity and the non-controlling interests based on their respective ownership interests. Inter-company balances and transactions are eliminated on consolidation.

Functional and Presentation Currency

The financial statements are presented in US dollars, unless otherwise stated. The functional currency of the parent company is the Canadian dollar and the functional currency of each of the Company's subsidiaries is the US dollar, except for TraceSafe Asia Pacific Pte Ltd. whose functional currency is the Singapore dollar.

3. Share Capital

Authorized share capital

The authorized capital of the company consists of unlimited common shares without par value.

Issued share capital

A total of 1,648,921 common shares were issued between April 1 and June 30, 2021, bringing the total number of shares outstanding to 44,716,888.

Number of Shares Outstanding	January 1 to June 30	
	2021	2020
Balance - beginning of period	35,765,784	22,238,031
Issuance of Common Shares by Warrants	5,828,850	1,097,213
Issuance of Common Shares by Options	572,254	6,252,177
Issuance of Common Shares for Performance	2,550,000	1,700,000
Repurchase of Common Shares	-	-
Balance - end of period	44,716,888	31,287,421

Notable share issuances

On June 16, 2021, WiSilica was issued 1,400,000 shares in TraceSafe Inc. in exchange for 1,400,000 shares in TraceSafe Tech at a 1:1 value, as per the contribution agreement dated April 22, 2020.

4. Related Party Transactions

Related parties include the Board of Directors, corporate officers, close family members, key management personnel, significant shareholders and enterprises that are controlled by these individuals as well as certain persons performing similar functions in material subsidiaries. This includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole and its subsidiaries.

	April 1 to June 30	
	2021	2020
Cost of Sales	\$ 1,675,863	\$ 322,101
Development	441,077	327,055
Management Fees	290,890	137,250
Professional Fees	-	31,113
Finance Charges	-	168,563
	\$ 2,407,830	\$ 986,082

During this period, a total expense of \$2,211,300 was incurred towards WiSilica Inc. (“WiSilica”), the company that was the vendor of the “TraceSafe” self-quarantine monitoring technology suite. The CEO of the Company’s new subsidiary, TraceSafe Technologies Inc., is a significant shareholder of WiSilica. Furthermore, transactions recorded in cost of sales, development (both on balance sheet and profit and loss) and finance charges are in the course of normal business and pursuant to the transition agreement.

5. General and Administrative Expenses

	April 1 to June 30	
	2021	2020
Insurance	\$ 27,119	\$ 25,149
Marketing	95,687	-
Meals & Entertainment	6,215	-
Office Supplies	65,972	15,924
Rent	16,920	-
Travel	6,182	13,693
	\$ 218,095	\$ 54,766

6. Receivable factoring facility

On November 3, 2020, the Company entered into a working capital facility agreement for a factoring facility of \$1,500,000. Discount fees of 2.7% of the issued invoice amount of purchased receivable for 0-30 days outstanding and 0.09% of the invoice amount of purchased receivable will be charged to the Company per day past thirty days outstanding. The facility can be cancelled at any time by either party with 30 days written notice. The Company provided a general security agreement to secure the working capital facility.

As of June 30, 2021, the Company had an outstanding owing amount of \$841,818.

7. Non-Controlling Interest

The non-controlling interest represents the non-voting common shares and preferred shares of TraceSafe Tech held by non-controlling interest holders and is related to the consideration transferred in the acquisition of TraceSafe technology.

On March 19, 2021, 1,400,000 Class B Non-Voting Common Shares in TraceSafe Tech were exchanged for 1,400,000 Common Shares in TraceSafe Inc, as per the Contribution Agreement with WiSilica Inc dated April 22, 2020. As a result, non-controlling interest in TraceSafe Tech changed from 92.5% to 91.8% as of June 16, 2021.

8. Note Payable

On June 10, 2021, TraceSafe Inc signed a convertible note with Patricia Steadman Ltd. for a principal amount of up to \$1,000,000 CAD, of which \$250,000 has been received as of June 30, 2021.

The note is for 1 year with an interest rate of 10.5% per annum.

9. Deposits Correction

It was determined that some of the deposits still showing as outstanding as of December 31, 2020 should have been absorbed into Cost of Revenue prior to December 31, 2020. Adjustments were posted in April, May, and June 2021 to move \$392,371 of deposits into Cost of Revenue. This is in addition to the Cost of Revenue amounts belonging in the time period between April 1 and June 30, 2021.

Adjustments to reflect actual operations for January 1 to March 31, 2021		
Reported Cost of Revenue	\$	3,010,170
Adjustment from deposits		(392,371)
Adjusted Cost of Revenue	\$	2,617,799
Reported Gross Profit	\$	389,140
Adjustment from deposits		392,371
Adjusted Gross Profit	\$	781,511
Reported Net Loss	\$	(1,806,850)
Adjustment from deposits		392,371
Adjusted Net Loss	\$	(1,414,479)

10. Other Income

An amount of \$11,844 was posted to Other Income to recognize interest earned upon the repayment of the EQIBank loan.

11. Interest

Interest relates to charges for Receivables Factoring in the amount of \$129,944 (see note 7).