

FREQUENCY EXCHANGE CORP.

(Formerly Israel Capital Canada Corp.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended September 30, 2022

(EXPRESSED IN CANADIAN DOLLARS)

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORT

The accompanying unaudited condensed consolidated interim financial report of Frequency Exchange Corp. (the "Company") has been prepared by and is the responsibility of the Company's management.

FREQUENCY EXCHANGE CORP.

(Formerly Israel Capital Canada Corp.)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

	Note	September 30, 2022	December 31, 2021
ASSETS			
Current assets			
Cash		\$ 1,418,884	\$ 173,889
Trade and other receivables	5	45,250	43,537
Prepaid expenses and deposits		24,939	16,125
Inventory	6	90,424	114,605
		1,579,497	348,156
Non-current assets			
Property and equipment	7	7,926	20,183
Intangible assets	8	172,014	24,496
Total assets		\$ 1,759,437	\$ 392,835
LIABILITIES AND EQUITY (DEFICIENCY)			
Current liabilities			
Trade and other payables	9	\$ 135,046	\$ 179,907
Amounts due to related parties	13	7,569	1,552,879
Convertible notes payable	10	640,022	573,030
Lease liability – current portion	12	9,156	17,660
		791,793	2,323,476
Non-current liabilities			
Lease liability	12	-	4,412
Loan payable	11	58,586	51,976
Total liabilities		850,379	2,379,864
Equity (deficiency)			
Share capital	14	6,354,256	100
Share-based payments reserve	15	838,840	111,994
Deficit		(6,284,038)	(2,099,123)
Total equity (deficiency)		909,058	(1,987,029)
Total liabilities and equity		\$ 1,759,437	\$ 392,835

Nature of operations and going concern (Note 1)**Event after the reporting period** (Note 21)

Approved by the board of directors on November 29, 2022 and signed on its behalf by:

“Stephen Davis”

Director

“Hari Varshney”

Director

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

FREQUENCY EXCHANGE CORP.

(Formerly Israel Capital Canada Corp.)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(EXPRESSED IN CANADIAN DOLLARS)

	Note	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Sales		\$ 123,097	\$ 211,065	\$ 488,254	\$ 685,364
Cost of sales		(102,749)	(169,809)	(370,555)	(432,725)
Gross profit		20,348	41,256	117,699	252,639
Operating expenses					
Accounting and audit		21,500	3,696	144,118	21,473
Advertising and marketing		157,802	39,650	305,976	151,441
Consulting		-	2,043	3,000	125,598
Depreciation and amortization	7, 8	5,914	447	14,739	12,022
Interest		23,309	13,776	71,070	133,225
Legal fees		-	-	208,825	2,946
Management fees	13	127,284	63,800	362,084	110,950
Office and general		18,289	17,769	34,605	50,763
Regulatory and transfer agent		1,717	-	57,775	-
Share-based payments	15	77,318	-	526,164	75,988
Wages and benefits		72,598	63,205	218,637	202,758
		(505,731)	(204,386)	(1,946,993)	(887,164)
Loss from operations		(485,383)	(163,130)	(1,829,294)	(634,525)
Interest and other income		7,228	-	11,032	8,873
Reversal of provision on trade receivable		20,524	-	20,524	-
Listing expense	4	-	-	(2,387,177)	-
Loss and comprehensive loss for the period		\$ (457,631)	\$ (163,130)	\$ (4,184,915)	\$ (625,652)
Basic and diluted loss per common share	14	\$ (0.01)	\$ (0.02)	\$ (0.12)	\$ (0.05)

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

FREQUENCY EXCHANGE CORP.

(Formerly Israel Capital Canada Corp.)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

(EXPRESSED IN CANADIAN DOLLARS)

	Note	Number of Shares	Share capital	Share-based payments reserve	Deficit	Total equity
Balance, December 31, 2021		18,000,000	\$ 100	\$ 111,994	\$ (2,099,123)	\$ (1,987,029)
Private placement	14	7,212,498	2,524,375	-	-	2,524,375
Reverse takeover transaction	4	7,181,341	2,513,469	-	-	2,513,469
Shares issued for debt settlement	14	4,185,714	1,465,000	-	-	1,465,000
Share issuance costs	14	-	(218,780)	69,341	-	(149,439)
Stock options and warrants issued on RTO	4	-	-	181,433	-	181,433
Exercise of warrants	14	200,000	70,092	(50,092)	-	20,000
Share-based payments	15	-	-	526,164	-	526,164
Loss for the period			-	-	(4,184,915)	(4,184,915)
Balance, September 30, 2022		36,579,553	\$ 6,354,256	\$ 838,840	\$ (6,284,038)	\$ 909,058

	Note	Number of Shares	Share capital	Share-based payments reserve	Deficit	Total deficiency
Balance, December 31, 2020		18,000,000	\$ 100	\$ -	\$ (1,341,763)	\$ (1,341,663)
Bonus warrants	15	-	-	74,000	-	74,000
Share-based payments	15	-	-	75,988	-	75,988
Loss for the period			-	-	(625,652)	(625,652)
Balance, September 30, 2021		18,000,000	\$ 100	\$ 149,988	\$ (1,967,415)	\$ (1,817,327)

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

FREQUENCY EXCHANGE CORP.

(Formerly Israel Capital Canada Corp.)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30

(EXPRESSED IN CANADIAN DOLLARS)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (4,184,915)	\$ (625,652)
Items not affecting cash:		
Depreciation and amortization	14,739	12,022
Interest	71,070	63,091
Reversal of provision on trade receivable	(20,524)	-
Share-based payments	526,164	75,988
Bonus warrants	-	74,000
Listing expense	2,694,902	-
Changes in non-cash working capital items:		
Trade and other receivables	18,811	(3,173)
Prepaid expenses and deposits	(8,814)	-
Inventory	24,181	(142,554)
Trade and other payables	(44,861)	106,761
Amounts due to related parties	(76,444)	112,938
Net cash used in operating activities	(985,691)	(326,579)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment	-	(3,452)
Intangible assets	(150,000)	-
Net cash provided by financing activities	(150,000)	(3,452)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	2,544,375	-
Share issuance costs	(149,439)	-
Payment of lease liability	(14,250)	(14,250)
Convertible notes payable	-	398,047
Loan payable	-	60,000
Net cash provided by financing activities	2,380,686	443,797
Change in cash during the period	1,244,995	113,766
Cash, beginning of the period	173,889	141,814
Cash, end of the period	\$ 1,418,884	\$ 255,580

Supplemental cash flow information (Note 16)

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

FREQUENCY EXCHANGE CORP.

(Formerly Israel Capital Canada Corp.)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2022

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

1. NATURE OF OPERATIONS AND GOING CONCERN

Frequency Exchange Corp. (formerly Israel Capital Canada Corp.) (the “Company”) was incorporated on August 15, 2019 under the Business Corporations Act (British Columbia). The Company was a Capital Pool Company (“CPC”) as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4 (“Policy 2.4”) after completing its initial public offering on May 8, 2020. The Company’s head office and principal address is Suite 2050 -1055 W. Georgia Street, Vancouver BC, V6E 3P3. The registered and records office is Suite 1008 - 550 Burrard Street, Vancouver BC V6C 2B5.

On January 14, 2022, the Company entered into a Securities Exchange Agreement with FREmedica Technologies Inc. (“FREmedica”) and its parent company Waveforce Electronics Inc. (“Waveforce”) whereby the Company agreed to acquire all the issued and outstanding securities of FREmedica from Waveforce by issuing 18,000,000 common shares of the Company (the “Transaction”). Two directors and officers of the Company own approximately 19.49% of the issued and outstanding shares of Waveforce prior to the Transaction. The Transaction, therefore, is considered a non-arm’s length transaction. The Transaction was completed on February 2, 2022. Upon completion of the Transaction, the Company completed a name change from “Israel Capital Canada Corp.” to “Frequency Exchange Corp.”.

As a result of the Transaction, control of the Company passed to the former shareholders of FREmedica. The Transaction constituted a Reverse Takeover (“RTO”) under applicable securities law. The consolidated statements of financial position are presented as a continuance of FREmedica and the comparative figures presented are those of FREmedica (Note 4). The Transaction is the Qualifying Transaction of the Company pursuant to Policy 2.4 of the TSX-V. The common shares of the Company commenced trading on the TSX-V under the trading symbol “FREQ” on February 7, 2022.

The Company will continue the business which was previously conducted by FREmedica. The Company’s principal business activity is the sale of wearable devices capable of transmitting frequencies to repair cell function damaged by Lyme disease and restore immunity.

Going concern of operations

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred losses since inception in the amount of \$5,826,407 and has not yet achieved profitable operations. The Company’s ability to continue as a going concern is dependent on its ability to obtain adequate financing on reasonable terms from lenders, shareholders and other investors and/or to commence profitable operations in the future. While the Company has been successful in securing financing to date, there can be no assurances that it will be able to do so in the future. The aforementioned factors indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern.

These condensed interim consolidated financial statements do not include adjustments that would be required if the going concern assumption is not an appropriate basis for preparation of the financial statements. These adjustments could be material.

FREQUENCY EXCHANGE CORP.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2022

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1. NATURE OF OPERATIONS AND GOING CONCERN (cont'd...)

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The Company's operations have not been drastically impacted by the COVID-19 pandemic. The Company is closely monitoring the impact of the pandemic on all aspects of its business and adapting its business plans accordingly.

2. BASIS OF PREPARATION**Statement of compliance**

These condensed unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The condensed interim consolidated financial statements do not include all of the disclosures required for a complete set of annual financial statements and should be read in conjunction with the audited annual financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS as issued by the IASB.

Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values. In addition these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, FREmedica. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

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NINE MONTHS ENDED SEPTEMBER 30, 2022

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2. BASIS OF PREPARATION (cont'd...)

Significant estimates and assumptions

In preparing these condensed interim consolidated financial statements, management has made judgments and estimates and used assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results will differ materially from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Estimates

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Critical accounting estimates are also those that could potentially have a material impact on the Company's financial results where a different estimate or assumption is used. The significant areas of estimation uncertainty are:

Expected credit losses ("ECL")

The Company's trade and other receivables are typically short-term in nature. Management reviews accounts receivable at each statement of financial position date to determine whether the amounts due to the Company are recoverable. Management determines the recoverability of its accounts receivable balances by reviewing the aging of outstanding balances, payment history and the creditworthiness of its customers. The process of determining recoverability requires management to make estimates regarding expected future recovery of cash balances based on these inputs.

Useful life of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date and estimates the expected future utility of the assets to the Company.

Leases

Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions. The incremental borrowing rates are based on estimates including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.

Convertible notes

Management estimates the fair value of the convertible notes which requires determining the most appropriate valuation model and the most appropriate inputs to the valuation model.

Taxation

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

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2. BASIS OF PREPARATION (cont'd...)

Significant judgments

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the condensed interim consolidated financial statements.

Going concern

The going concern assessment requires management's judgment on the ability of the Company to achieve positive cash flow from operations and/or obtain necessary equity or other financing.

Impairment considerations

The determination of whether an indication of impairment loss or a reversal of an impairment loss exists for equipment and finite lived intangible assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the Company's audited annual consolidated financial statements for the year ended December 31, 2021 were consistently applied to all the periods presented unless otherwise noted below.

New or revised accounting standards not yet adopted

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's condensed interim consolidated financial statements.

4. ACQUISITION AND REVERSE TAKEOVER TRANSACTIONS

On February 2, 2022, the Company completed a transaction contemplated by a Securities Exchange Agreement with FREmedica and FREmedica's parent company Waveforce (the "Transaction"). Pursuant to the Securities Exchange Agreement, the Company acquired all of the issued and outstanding securities of FREmedica by issuing 18,000,000 common shares of the Company to Waveforce. As a result, control of the Company passed to Waveforce and its shareholders. The Transaction constituted a RTO under applicable securities law. Upon completion of the Transaction, the Company completed a name change from "Israel Capital Canada Corp." to "Frequency Exchange Corp.". The Company will continue the business which was previously conducted by FREmedica.

The Transaction does not constitute a business combination as Israel Capital Canada Corp. ("ICCC") did not meet the definition of a business under *IFRS 3 Business Combinations*. Immediately after the Transaction, shareholders of FREmedica owned 71.5% of the voting rights of the Company. As a result, the Transaction has been accounted for as a capital transaction with FREmedica being identified as the accounting acquirer and the equity consideration being measured at fair value, using the acquisition method of accounting. The Transaction has been accounted for in the consolidated financial statements as a continuation of the financial statements of FREmedica. The results of operations of ICCC are included in the financial statements since the date of acquisition.

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4. ACQUISITION AND REVERSE TAKEOVER TRANSACTIONS (cont'd...)

FREmedica is deemed to have acquired the Company as part of the Transaction. The Transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and liabilities assumed were recorded at their estimated fair value at the acquisition date. The acquisition did not meet the criteria for a business combination and is therefore treated a recapitalization under the scope of *IFRS 2 Share Based Payments*. The consideration consisted entirely of shares of the Company which were measured at the estimated fair value on the date of acquisition. The fair value of the common shares issued to the former shareholders of ICCC was determined to be \$2,513,469 based on the fair value of the shares issued (7,181,341 shares at \$0.35 per share). The fair value of the Company's stock options was determined to be \$131,341 using the Black Scholes Option Pricing Model based on the following assumptions: Stock price volatility - 96.3%; Risk-free interest rate - 1.44%; Stock price of \$0.35 and an expected life of 3 years. The fair value of the Company's warrants was determined to be \$50,092 using the Black Scholes Option Pricing Model based on the following assumptions: Stock price volatility - 96.3%; Risk-free interest rate - 1.35%; Stock price of \$0.35 and an expected life of 0.25 year.

Details of the allocation of the estimated fair value of identifiable assets acquired and purchase consideration are as follows:

Total consideration	
7,181,341 common shares measured at a fair value of \$0.35 per share	\$ 2,513,469
460,000 stock options	131,341
200,000 warrants	50,092
	<hr/>
	\$ 2,694,902
Net identifiable assets acquired (liabilities assumed)	
Cash	\$ 58,107
Other assets	294,329
Accounts payable	(44,711)
	<hr/>
	\$ 307,725
Listing expense	\$ 2,387,177

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2022

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

5. TRADE AND OTHER RECEIVABLES

	September 30, 2022	December 31, 2021
Trade receivables	\$ 8,051	\$ 43,537
Goods and services taxes recoverable	37,199	-
	\$ 45,250	\$ 43,537

Included in the trade receivable at September 30, 2022 is an allowance for doubtful accounts of \$4,500 (December 31, 2021 - \$25,024).

6. INVENTORY

As at September 30, 2022, the Company's inventory consisted of finished goods with a value of \$90,424 (December 31, 2021 - \$114,605). There was no inventory written down during the years ended December 31, 2021 and the nine months ended September 30, 2022.

7. PROPERTY AND EQUIPMENT

	Computer	Right of use assets	Total
Cost			
Balance at December 31, 2020	\$ 8,754	\$ 36,198	\$ 44,952
Additions	2,636	-	2,636
Balance at December 31, 2021 and September 30, 2022	11,390	36,198	47,588
Accumulated depreciation			
Balance at December 31, 2020	\$ 6,129	\$ 6,033	\$ 12,162
Depreciation	2,080	13,163	15,243
Balance at December 31, 2021	8,209	19,196	27,405
Depreciation	2,386	9,871	12,257
Balance at September 30, 2022	\$ 10,595	\$ 29,067	\$ 39,662
Net amount			
Balance at September 30, 2022	\$ 795	\$ 7,131	\$ 7,926
Balance at December 31, 2021	\$ 3,181	\$ 17,002	\$ 20,183

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NINE MONTHS ENDED SEPTEMBER 30, 2022

(Unaudited – Prepared by Management)

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8. INTANGIBLE ASSETS

	License	Trademark	Website	Total
Cost				
Balance at December 31, 2020 and 2021	\$ -	\$ 11,134	\$ 15,041	\$ 26,175
Additions	150,000	-	-	150,000
Balance at September 30, 2022	150,000	11,134	15,041	176,175
Accumulated depreciation				
Balance at December 31, 2020	\$ -	\$ 172	\$ 218	\$ 390
Amortization	-	557	732	1,289
Balance at December 31, 2021	-	729	950	1,679
Amortization	1,500	418	564	2,482
Balance at September 30, 2022	\$ 1,500	\$ 1,147	\$ 1,514	\$ 4,161
Net amount				
Balance at September 30, 2022	\$ 148,500	\$ 9,987	\$ 13,527	\$ 172,014
Balance at December 31, 2021	\$ 10,405	\$ 10,405	\$ 14,091	\$ 24,496

9. TRADE AND OTHER PAYABLES

	September 30, 2022	December 31, 2021
Trade payables	\$ 80,315	\$ 153,171
Customer deposits	6,098	5,441
Other payables	48,633	21,295
	\$ 135,046	\$ 179,907

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases relating to inventory purchases and general operating activities. The usual credit period taken for trade purchases is between 30 to 90 days.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2022

(Unaudited – Prepared by Management)

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10. CONVERTIBLE NOTES PAYABLE

- a) On October 1, 2019, the Company received a \$100,000 unsecured convertible loan from a director of the Company. The loan bore interest at a rate of 6% per annum and had a maturity date of September 30, 2021. The Company also agreed to issue a bonus payment to the director equal to \$50 per device sold on the first 2,000 devices. The total bonus payment accrued was \$52,000.

On November 9, 2021, the Company issued a new convertible note of \$133,201 to the director for the outstanding principal balance, the bonus payment and accrued interest due to the director from the original loan. The convertible note is secured by the inventory of the Company, have a maturity date of February 2, 2023, and bear interest at a rate of 15% per annum, payable on maturity. The debentures are convertible at any time following the maturity date at the holder's option into common shares of the Company at \$0.35 per share. As at September 30, 2022, the Company accrued interest of \$17,991 on the note.

- b) On April 14, 2021, the Company issued a promissory note of \$200,000 to a company controlled by a director of the Company. The loan bore interest at a rate of 15% per annum and had a maturity date of October 13, 2021.

On November 9, 2021, the Company issued a convertible note of \$200,000 to a company controlled by a director of the Company. The convertible note is secured by the inventory of the Company, has a maturity date of February 2, 2023, and bears interest at a rate of 15% per annum, payable on maturity. The debentures are convertible at any time following the maturity date at the holder's option into common shares of the Company at \$0.35 per share. As at September 30, 2022, the Company accrued interest of \$44,415 on the note.

- c) On April 14, 2021, the Company issued a promissory note of \$200,000 to a third party. The loan bore interest at a rate of 15% per annum and had a maturity date of October 13, 2021.

On November 9, 2021, the Company issued a convertible note of \$200,000 to the same third party. The convertible note is secured by the inventory of the Company, has a maturity date of February 2, 2023, and bears interest at a rate of 15% per annum, payable on maturity. The debentures are convertible at any time following the maturity date at the holder's option into common shares of the Company at \$0.35 per share. As at September 30, 2022, the Company accrued interest of \$44,415 on the note.

11. LOAN PAYABLE

During the year ended December 31, 2021, the Company opened a Canada Emergency Business Account ("CEBA") and received loans totaling \$60,000 funded by the Government of Canada. The loan is interest-free and may be repaid any time before December 31, 2023, at which time, if unpaid, the remaining balance will convert to a 3 year term loan at an interest rate of 5% per annum. If the Company repays the loan prior to December 31, 2023, there will be loan forgiveness of 25% of the loan, up to \$19,800. The Company measured the loan at a fair value of \$47,358, using a discount rate of 10%, resulting in a loan benefit of \$13,800 recognized in net loss as other income.

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NINE MONTHS ENDED SEPTEMBER 30, 2022

(Unaudited – Prepared by Management)

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12. LEASE LIABILITY

A continuity of the Company's lease liability is as follows:

	2022	2021
Balance, beginning of the period	\$ 22,072	\$ 35,465
Interest expense	1,334	5,607
Lease payments	(14,250)	(19,000)
Balance, end of the period	\$ 9,156	\$ 22,072
Current liability	\$ 9,156	\$ 17,660
Long-term liability	\$ -	\$ 4,412

The Company has entered into an office lease agreement for its office premises for a term ending in March 2023. The Company has a cost-sharing agreement for its corporate office whereby certain related parties share the leased premise with the Company and reimburse the Company. Accordingly, the Company has recognized a right-of-use asset and liability pertaining to its share of the lease costs. The Company's share of undiscounted future lease payment are as follows:

2022	\$ 4,750
2023	<u>4,750</u>
	\$ 9,500

13. RELATED PARTY TRANSACTIONS

Related parties include key management personnel, the Board of Directors, close family members and entities that are controlled by these individuals as well as certain persons performing similar functions.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, and consist of directors and officers of the Company. The compensation paid or payable to key management personnel during the nine month periods ended September 30 is as follows:

	2022	2021
Management fees	\$ 362,084	\$ 110,950
Share-based payments	154,746	-
Total	\$ 516,830	\$ 110,950

The Company has entered into two management consulting agreements with the CEO and the Vice President of the Company with a monthly fee of \$10,000 each.

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13. RELATED PARTY TRANSACTIONS (cont'd...)

On February 2, 2022, the Company engaged Varshney Capital Corp. (“VCC”), a company with a director in common, for administrative services for a monthly fee of \$5,000 plus taxes for a six-month term with a renewal option for an additional six months at a monthly fee of \$7,500 plus taxes and thereafter on an annual basis until otherwise terminated. During the nine months ended September 30, 2022, the Company paid \$45,000 (2021 - \$Nil) for administrative fees to VCC.

Included in amounts due to related parties are \$7,569 (December 31, 2021 - \$1,527,543) due to Waveforce, the former sole shareholder of FREmedica and a company with common directors of the Company. FREmedica has an agreement with Waveforce whereby FREmedica purchases its products for resale from Waveforce, which entitles a 30% royalty. The royalty was reduced to 10% effective February 2, 2022 upon completion of the RTO Transaction. During the nine months ended September 30, 2022, the Company incurred royalty expense of \$92,101 (2021 - \$148,548). Amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment. During the nine months ended September 30, 2022, the Company issued 4,185,714 common shares to settle \$1,465,000 of debt due to Waveforce.

On July 6, 2022, FREmedica entered into an agreement with Frequency Warehouse Inc. (“Warehouse”) whereby FREmedica acquired an exclusive, royalty-bearing, non-transferable license from Warehouse to build a membership subscription program (including finished products, modules, and components) which delivers frequency packages through a wearable frequency emitter. In consideration for the license granted, FREmedica paid Warehouse a one-time license fee of \$150,000 and agreed to pay a royalty equal to 10% of annual gross revenue pertaining to the sale of the membership and any fees collected for additional frequency services being offered through the membership. Warehouse is controlled by Waveforce, which has directors and officers in common with the Company. The transaction, therefore, is considered a non-arm’s length transaction.

14. SHARE CAPITAL**Authorized share capital**

The Company is authorized to issue an unlimited number of common shares and preferred shares with no par value.

Issued share capital

Prior to the Transaction, the Company had 10,000,000 shares of common shares issued and outstanding. In connection with the RTO Transaction, the Company reorganized its share capital and completed a share split on a basis of one (1) pre-split common share, stock options and warrants for 1.8 post-split common share, stock options and warrants. All information relating to basic and diluted loss per share and issued and outstanding common shares in these consolidated financial statements have been adjusted and restated retrospectively to reflect the share split.

At September 30, 2022, the Company had 36,779,553 common shares (December 31, 2021 - 18,000,000) and nil preferred shares outstanding.

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14. SHARE CAPITAL (cont'd...)**Escrowed shares**

Upon completion of the IPO and pursuant to an escrow agreement dated March 6, 2020, 4,000,000 common shares issued to directors and officers of the Company prior to the IPO were placed into escrow. Under the escrow agreement, 10% of the escrowed common shares will be released from escrow on the date of the issuance of the final Exchange bulletin (the “Initial Release”) upon completion of a Qualifying Transaction, and an additional 15% will be released every six months following the Initial Release over a period of thirty-six months. As at September 30, 2022, 3,000,000 common shares remained in escrow.

In addition, 16,965,582 common shares the former shareholder of FREmedica, directors and promoters are also subject to escrow in which 10% of escrowed securities will be released on February 2, 2022 and 15% every 6 months thereafter. As at September 30, 2022, 12,724,186 common shares remained in escrow.

Share issuance

During the nine months ended September 30, 2022, the Company:

- a) Completed a non-brokered private placement of 7,212,498 units at a price of \$0.35 per unit for gross proceeds of \$2,524,375. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant allows the holder to acquire one additional common share for a period of 24 months at an exercise price equal to \$0.70 per share. The Company paid \$145,642 and issued 416,119 finder’s warrants as a finders’ fee. The finder’s warrants have an exercise price of \$0.35 for a period of one year. The finder’s warrants were valued at \$69,341 using the Black-Scholes Option Pricing Model (assuming a risk-free interest rate of 1.35%, an expected life of 1 year, annualized volatility of 96.3% and a dividend rate of 0%). The Company also incurred filing and other expenses of \$3,797 in connection with the private placement.
- b) Issued 200,000 common shares at \$0.10 per share from the exercise of agent’s warrants for gross proceeds of \$20,000. Accordingly, \$50,092 was transferred from share-based payments reserve to share capital.
- c) Issued 4,185,714 common shares to settle \$1,465,000 of debt due to Waveforce.
- d) Issued 7,181,341 common shares of the Company with a fair value of \$2,513,469 pursuant to the RTO Transaction (Note 4).

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the nine month period ended September 30, 2022 was based on the loss attributable to shareholders of \$4,184,915 (2021 - \$625,652) and a weighted average number of shares outstanding of 34,786,283 (2021 - 18,000,000).

At September 30, 2022, 3,085,000 stock options (2021 - nil) and 5,450,234 warrants (2021 - 1,296,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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15. SHARE-BASED PAYMENTS**Stock options**

The Company has adopted a rolling stock option plan under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 5 years and vest as determined by the board of directors.

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Balance, December 31, 2020 and 2021	-	\$ -
Stock options granted	3,085,000	0.36
Balance, September 30, 2022	3,085,000	\$ 0.36
Exercisable at September 30, 2022	2,572,100	\$ 0.35
Weighted average fair value of options granted during the period	\$ 0.22	(2021 - \$nil)

The options outstanding at September 30, 2022 have exercise prices in the range of \$0.10 to \$0.40 and a weighted average remaining contractual life of 1.71 years.

The fair value calculated for stock options granted during the nine months ended September 30, 2022 was \$686,343 (2021 - \$nil) using the Black-Scholes Option Pricing Model. For the nine months ended September 30, 2022, the Company recognized share based payment expense of \$526,164 (2021 - \$nil) based on the vesting provisions of stock options granted.

The following weighted average assumptions were used for the Black-Scholes Option Pricing Model valuation of stock options granted:

	2022	2021
Risk-free interest rate	1.38%	-
Expected life of options	2.31 years	-
Annualized volatility	96.3%	-
Share prices	\$0.39	-
Forfeiture rate	Nil	-
Dividend rate	Nil	-

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15. SHARE-BASED PAYMENTS (cont'd...)**Warrants**

Warrants are issued as private placement incentives and measured using the residual method. Agents' warrants and bonus warrants are measured at fair value on the date of the grant as determined using the Black-Scholes Option Pricing Model.

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2020	-	\$ -
Warrants granted	1,427,868	0.20
Balance, December 31, 2021	1,427,868	\$ 0.20
Warrants granted	3,606,249	0.70
Finder's warrants granted	416,119	0.27
Agent's warrants granted	200,000	0.10
Agent's warrants exercised	(200,000)	0.10
Balance, September 30, 2022	5,450,236	\$ 0.41

The warrants outstanding at September 30, 2022 have exercise prices in the range of \$0.10 to \$0.70 and a weighted average remaining contractual life of 0.85 year.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during the nine months ended September 30, 2022 included:

- a) Issued 416,119 finder's warrants with a value of \$69,341 in connection with private placement financings.
- b) Issued 7,181,341 common shares of the Company with a fair value of \$2,513,469 pursuant to the RTO Transaction.
- c) Issued 4,185,714 common shares to settle \$1,465,000 of debt due to Waveforce.

There are no significant non-cash transactions during the nine months ended September 30, 2021.

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17. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, trade and other receivables, deposits, trade and other payables, amounts due to related parties, convertible notes payable, and loans payable. The carrying amount of cash, trade and other receivables, trade and other payables, amounts due to related parties, convertible notes payable, and loans payable, carried at amortized cost is a reasonable approximation of fair value due to the relatively short period to maturity of these financial instruments and/or the rate of interest being charged.

Financial risk management

The Company's financial risks arising from its financial instruments are credit risk, liquidity risk, foreign currency exchange risk, and interest rate risk. The Company's exposures to these risks and the policies on how to mitigate these risks are set out below. Management monitors and manages these exposures to ensure appropriate measures are implemented on a timely basis and in an effective manner.

Credit risk

Credit risk arises when one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. Financial instruments that subject the Company to credit risk consist primarily of cash and trade and other receivables. The credit risk relating to cash balances is limited because the Company holds its cash in Canadian rated financial institutions and will only consider investment of excess cash in highly rated government and corporate debt securities or guaranteed certificates from Canadian chartered banks. The amounts reported for trade and other receivables in the consolidated statements of financial position are net of allowances for credit losses and bad debts and the net carrying value represents the Company's maximum exposure to credit risk. Trade and other receivables credit exposure is minimized by entering into transactions with creditworthy counterparties and monitoring the age and balances outstanding on an ongoing basis. Payment terms with customers are generally 30 days from invoice date.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board of Directors considers securing additional funds through issuances of equity and debt or partnering transactions. The Board of Directors approves any material transactions outside the ordinary course of business. Management regularly reviews the Company's operating and capital budgets and maintains short-term cash flow forecasts. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

Currency risk

The Company operates primarily in Canadian dollars and as such is not significantly affected by the fluctuations of the Canadian dollar with other currencies. The Company is, however, subject to currency risk due to its online sales to customers in foreign jurisdictions.

Interest rate risk

The Company is exposed to interest rate risk arising from cash held in Canadian financial institutions. The interest rate risk on cash is not considered significant due to its short-term nature and maturity. The exposure to interest rates for the Company is considered minimal. The Company has not used any financial instrument to hedge potential fluctuations in interest rates.

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18. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As at September 30, 2022, the Company has no financial assets or liabilities recorded at FVTPL.

19. SEGMENTED INFORMATION

The Company has one operating segment, the sale of wearable devices. All of the Company's non-current assets are based in Canada. The Company's revenue and operations by geographical regions are outlined below.

	Canada	United States	International	Total
	\$	\$	\$	\$
Nine months ended September 30, 2022				
Revenue	38,678	449,576	-	488,254
Cost of sales	(29,354)	(341,201)	-	(370,555)
Gross profit	9,324	108,375	-	117,699
Nine months ended September 30, 2021				
Revenue	117,153	547,154	21,057	685,364
Cost of sales	(73,968)	(345,462)	(13,295)	(432,725)
Gross profit	43,185	201,692	7,762	252,639

20. CAPITAL MANAGEMENT

The Company's capital structure consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through advances from related parties. Future financings are dependent on the willingness of the related parties to advance funds to the Company and market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company is not subject to externally imposed capital requirements. The Company may raise additional debt or equity financing in the near future to meet its obligations. There have been no changes in capital management for the years presented.